

## Tax Planning Given a Biden Administration

Tax planning is difficult at best anytime a new Administration is about to take over. This year's post-election results shed little light on what pieces of a Biden Administration proposed tax policy might be enacted. The issue? Control of the US Senate, which will likely determine what legislative items the Democrats could get passed will not be decided until a Georgia run-off for both of their Senate seats on January 5th, 2021. Thus, too late to help clarify which 2020 tax strategies to implement if any of Biden's personal tax proposals are implemented in 2021.

For the vast majority of taxpayers, you do not have to worry. Most of President-elect Biden's tax changes would increase taxes for the top 1% of taxpayers making more than \$400,000 a year. For those high earners, the question is whether to accelerate some income to 2020. But doing so runs the risk of paying more taxes than needed if these proposals are not enacted. Here are a few of the personal tax changes for high earners proposed by the Biden administration (note that the Biden tax plan does not clearly define income levels or tax rate changes noted below):

- For those making over \$400,000/year, ordinary income tax rates would likely increase. The 2017 Tax Cuts and Jobs Act (TCJA) might be repealed which would effectively raise the top end ordinary tax rate from 37.0% to the former 39.6% rate. There is also some discussion of possibly an even higher top rate.
- For those with very high income of over \$1 million, long-term capital gains rate would be taxed at the highest ordinary income rate. For these individuals, that could mean an almost doubling from the current 20% long-term capital gains rate to the proposed top end ordinary rate of 39.6%. If true, this change implies these individuals should consider selling some level of highly appreciated investment holdings in 2020, which is always difficult to consider doing.
- There may also be some motivation for some high earners to accelerate some itemized deductions to 2020. President-elect Biden's tax platform proposes a 28% cap on the maximum tax benefit for itemized deductions. Assume itemized deduction of \$100,000. Under current law, you would receive a tax reduction of 37% (top tax rate) times \$100,000 or \$37,000. Under President-elect Biden's proposal, the tax reduction would be 28% (maximum cap) times \$100,000 or \$28,000.

For those who may be impacted by some of the proposed tax changes, we suggest you work with your professional tax preparer and/or financial planner to determine whether any 2020 tax planning strategies would make sense given your situation.

Source:

[Kitces.com/blog](https://www.kitces.com/blog/) – author Jeffrey Levine “Year-End Tax Planning Under The Forthcoming Biden Presidency”