

# BIDEN PROPOSED TAX PLAN

This is just a proposal – a starting point. It's impossible to know what changes will make it through the legislative process and ultimately become law. Use this information to initiate discussions, not to make final decisions or recommendations.

## BIG PICTURE

Goal: Biden's proposed tax plan seeks to raise taxes by approximately \$3.3 trillion during the next 10 years. The plan increases taxation on higher income earners and corporations and reduces taxation for lower income earners. Below please find the details on Biden's proposed tax plan which can be found at [taxfoundation.org](https://taxfoundation.org).



PERSONAL INCOME TAX TAX INCREASES	CURRENT LAW	PROPOSED CHANGE
<b>New maximum tax rate</b>	The seven different tax brackets are: 10, 12, 22, 24, 32, 35, and 37.	Increase the highest bracket from 37% to 39.6%. It is not clear if the current thresholds would stay the same or if the 39.6% tax rate would begin at \$400,000.
<b>Capital gains</b>	Taxes on long-term capital gains and qualified dividend income are capped at 20% (23.8% including the Medicare surcharge).	Tax the portion of capital gains and dividend income over the \$1M mark at the highest rate of 39.6% (43.4% including the Medicare surcharge).
<b>Payroll taxes</b>	Employers and employees evenly split the Social Security payroll tax of 12.4% on income up to \$142,800 (in	In addition to current law, tax income above \$400,000 at 12.4% (split evenly between employer and employee).
<b>Itemized deductions</b>	Taxpayers can choose to take a standard deduction on their tax return or itemize their deductions.	<p>1: Reinstate the Pease Limitation to reduce the allowable itemized deduction when income is more than \$400,000.</p> <p>2: Cap the itemized deduction benefit at 28% for those with income over \$400,000.</p>
<b>Pre-tax qualified retirement plan contributions (traditional 401(k), traditional IRA, etc.)</b>	The size of a taxpayer's deduction is determined by income bracket.	Replace traditional deductibility with a refundable tax credit for contributions. Consumer benefit would be the same no matter their income level.
<b>1031 exchanges</b>	In some situations, property can be sold and a similar property purchased without creating a taxable event.	Sales resulting in a capital gain might be taxable.
<b>Qualified business income deduction (section 199a)</b>	Eligible self-employed and small business owners may deduct 20% of qualified business income. Income limitations apply.	Eliminate the deduction for higher income earners by adding additional phase-outs.

ESTATE PLANNING TAX INCREASES	CURRENT LAW	PROPOSED CHANGE
<b>Estate and gift tax exemption</b>	The estate and gift tax exemption is \$11.7M (\$23.4M for a couple) for 2021. The tax rate caps out at 40%.	Decrease the estate tax exemption amount to \$3.5M (\$7M for a couple) and \$1M for lifetime gifts. The tax rate may increase to 45%.
<b>Step-up in basis</b>	At death, beneficiaries receive a step-up in cost basis equal to the value on many non-retirement assets.	Eliminate the step-up in cost basis and tax all gains. It's unclear whether the gains will be taxable immediately at death or when the beneficiary chooses to sell.

PERSONAL INCOME TAX TAX REDUCTIONS	CURRENT LAW	PROPOSED CHANGE
<b>Child Tax Credit</b> (age of child on Dec. 31 of tax year)	The Child Tax Credit (CTC) for ages 16 and younger is \$2,000. \$1,400 is refundable.	Increase the CTC from \$2,000 to \$3,000 for children 17 and younger. Add an additional \$600 bonus for children five and younger. These benefits would be fully refundable.
<b>Child and Dependent Care Tax Credit (CDCTC)</b>	The CDCTC is a non-refundable tax credit up to \$3,000 per child/dependent (\$6,000 family max) for out-of-pocket childcare expenses.	Expand credit to a maximum of \$8,000 per child (\$16,000 family max) and increase refundability to 50%.
<b>First-Time Home Buyer Tax Credit</b>	No credit available.	Offer credit up to the amount of \$15,000, capped at 10% of the purchase price. This benefit would be refundable and advanceable.

**Refundable tax credit:** Taxpayer gets the full credit, even if it's more than they owe.

**Nonrefundable tax credit:** Taxpayer gets the credit only up to the amount that they owe.

CORPORATE INCOME TAX INCREASE	CURRENT LAW	PROPOSED CHANGE
Corporate income tax	The Tax Cut and Jobs Act reduced the corporate tax rate from 35% to 21%.	Increase tax rate from 21% to 28%. The Biden tax plan also includes other minimum tax requirements for corporations.

## STRATEGIES TO MITIGATE THE IMPACT

- a. Capital gains planning/capital gains harvesting
- b. Itemized deduction planning (charitable giving, state/local tax, mortgage interest, etc.)
- c. Roth conversions
- d. Municipal bonds (tax-free investments)
- e. Low-dividend investments (when close to \$1M income level)
- f. Life insurance (higher tax rates and liquidity needs)
- g. Strategies to control capital gain realization when selling a business (installment sale)
- h. Qualified opportunity funds (can defer, reduce, and even eliminate capital gains)
- i. Lifetime gifting strategies (to reduce size of estate)
- j. Lifetime selling strategies (to reduce gain realized by beneficiaries)
- k. Use the \$11.7M 2021 exemption before it decreases
- l. Use trust strategies (to reduce size of estate)
- m. Non-qualified annuities can be a valuable tax-deferral tool when income exceeds \$1M (capital gains and dividends taxed the same as ordinary income)

**WANT HELP WITH ANY OF THESE STRATEGIES?  
CONTACT YOUR VP OF MARKETING TODAY!**

Source: <https://taxfoundation.org/joe-biden-tax-plan-2020/>



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