

Uncharted Territory: Biden's Proposed Tax Policy



Background on Proposed Tax Plan



Background of Biden's Tax Proposal

- ④ President Joe Biden intends to challenge many aspects of the current system in efforts to raise tax revenue
- ④ The tax plan would enact several policies that would raise taxes on individuals with income above \$400,000
- ④ The plan would raise taxes on corporations by raising the corporate income tax rate and imposing a corporate minimum book tax
- ④ Biden's plan would raise tax revenue by \$3.3 trillion over the next decade



Potential Key Changes of Biden's Tax Proposal

- ☉ Tax increases on over \$400,000 of income
- ☉ Elimination of long-term capital gains preferential tax treatment for income over \$1MM
- ☉ Elimination of the step-up in basis of capital assets upon death
- ☉ A flat retirement contribution credit of 26%
- ☉ 50% reduction of exclusion amount for estate and gift taxes
- ☉ Other changes: Child Tax Credit, First-time Homebuyer, etc.

Reference and Resources: [Michael Kitces Blog Post:](#) and [AICPA Presentation](#)

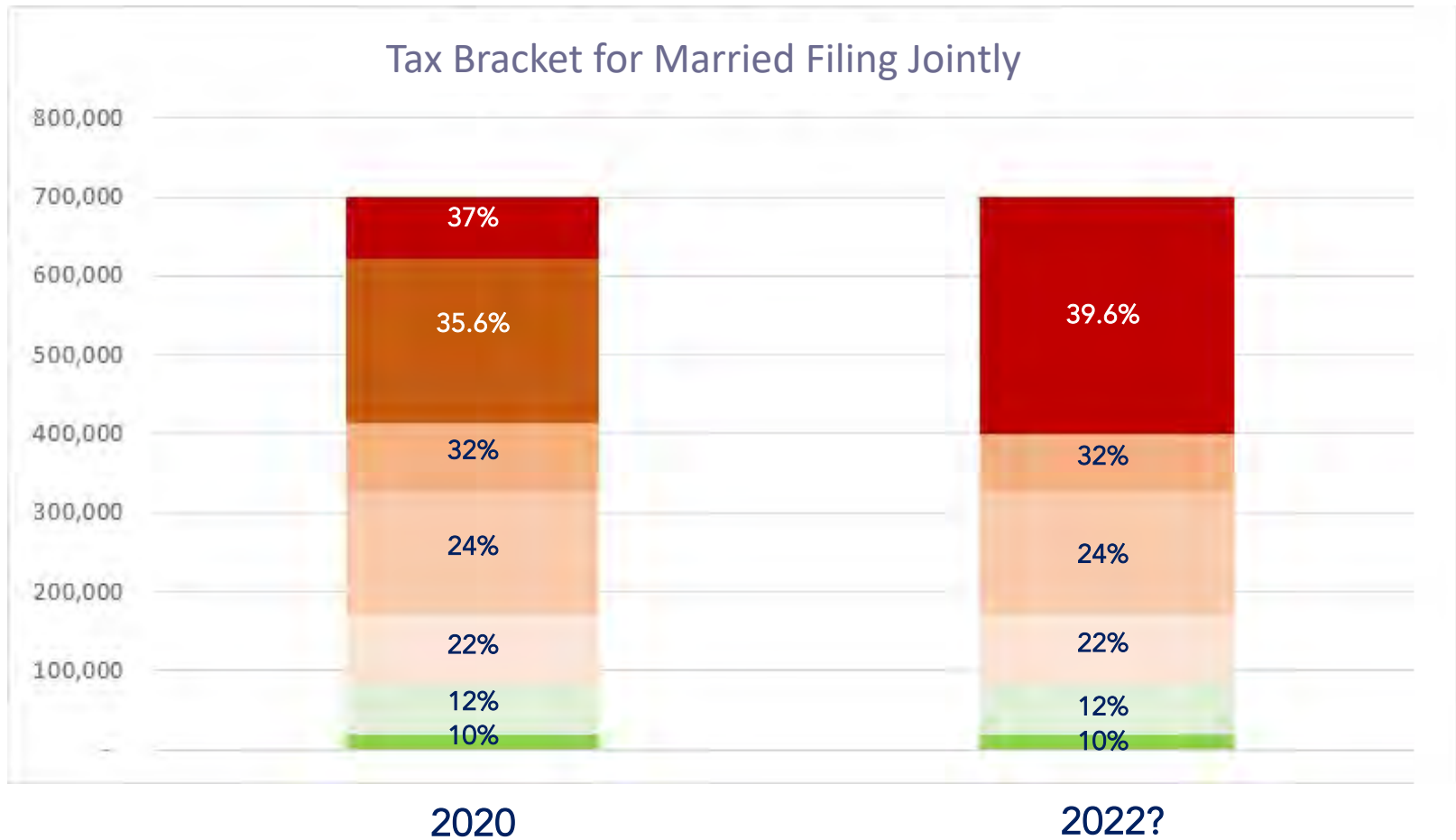
Tax Increases on Income Over \$400,000

Tax Increases on Income over \$400,000

- ☉ Restore the 39.6% marginal rate
- ☉ Expand the 12.4% Social Security tax
- ☉ Cap the itemized deduction tax benefit to 28%
- ☉ Other changes:
 - ☉ Restore the 3% PEASE limitation
 - ☉ Add a new Section 199A Deduction Phaseout

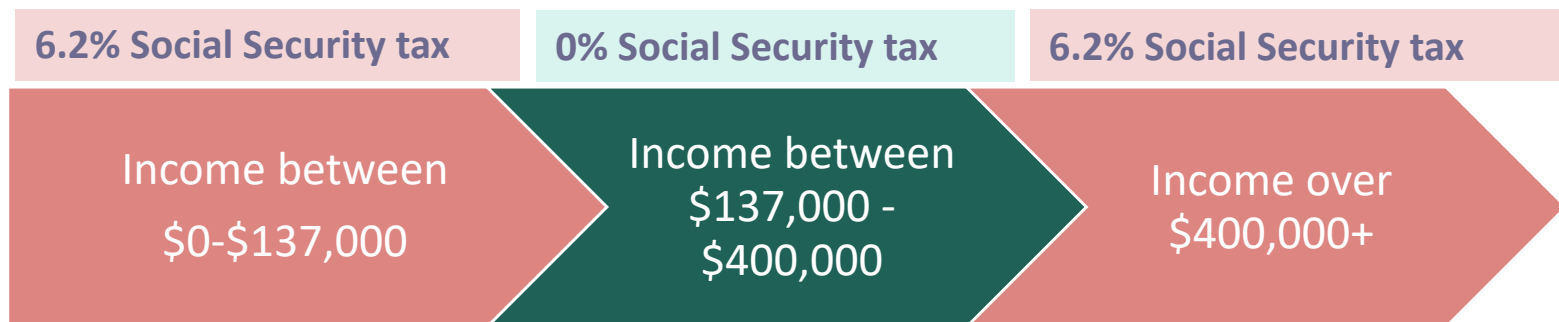


Tax Bracket for Income of \$400,000+



Social Security Tax

- Expand Social Security tax for income above \$400,000
- Social Security tax donut hole



Cap the Itemized Deduction Tax Benefit at 28%

- Exact method is not clear
- Below is an example of \$20,000 itemized deduction

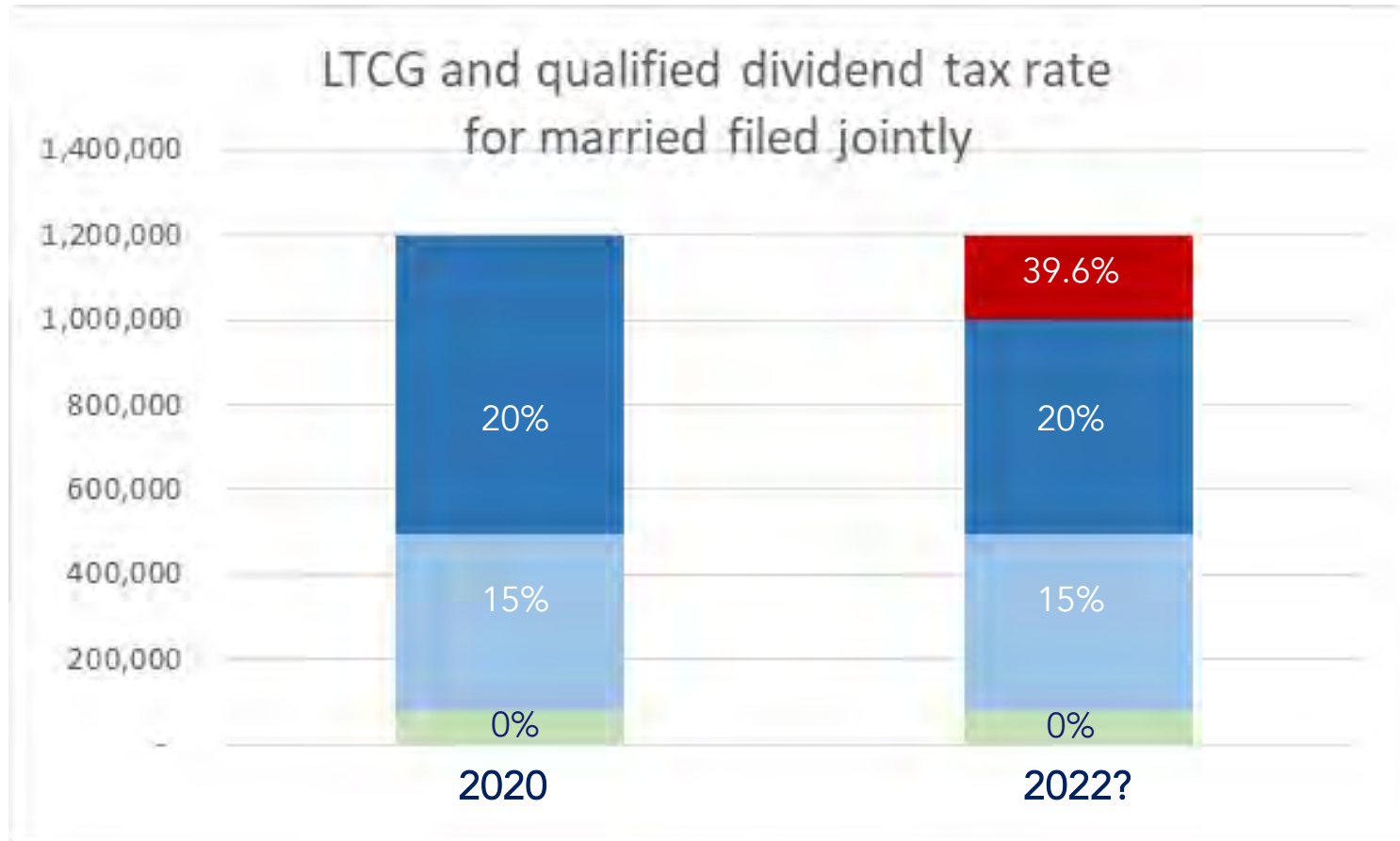
	Marginal Tax Rate				
	22%	24%	32%	35%	37%
Current System: Tax Value of Deduction	\$4,400	\$4,800	\$6,400	\$7,000	\$7,400
Possible Biden Plan: Tax Value of Deduction	\$4,400	\$4,800	\$5,600	\$5,600	\$5,600

Eliminate Long-Term Capital Gains Preferential Tax Treatment for Income over \$1MM



Eliminate Long-term Capital Gains/Qualified Dividend Preferential Tax Treatment

Income over \$1MM



Tax Eliminates Long-Term Capital Gains for Income over \$1MM

- ☉ Represents a critically important fundamental shift
- ☉ 3.8% Surtax on net investment income that would still apply as well
- ☉ The top rate paid on such long-term capital gains income
Today: 20% long-term capital gains tax + 3.8% surtax = 23.8%,
 - ☉ **Proposal:** Nearly double to 39.6% + 3.8% = 43.4% for those with over \$1MM of income!

Elimination of the Step-Up in Basis of Capital Assets Upon Death

Elimination of the Step-Up in Basis Upon Death

- ☉ Most significant proposal in the taxation of wealthy individuals
- ☉ Proposal to Eliminate the Section 1014(a) Basis Adjustment at “The STEP-UP”
- ☉ Possible forced sale of assets to occur at death
- ☉ It can be difficult to produce cash to pay taxes when underlying asset is illiquid
- ☉ Lots of potential implementation issues as beneficiary doesn't know the cost basis of inherited asset

A Flat Retirement Contribution Credit of 26% ?

A Flat Retirement Contribution Credit of (26%?)

- ☉ The intention of the proposal is to adjust the current system away from a world where the dollar benefit of retirement contribution is higher for high-income individuals
- ☉ Proposal can be problematic for high income earner
- ☉ Example: An individual at 39.6% tax bracket
 - ☉ Saving \$10,000 into traditional 401(k) results in \$2,600 tax credit
 - ☉ However, the \$10,000 income will no longer receive a deduction and results in a tax liability of \$3,960
 - ☉ Contributing to a traditional 401(k) **results in \$1,360 more tax liability.**
 - ☉ And you must pay tax when distributing from 401(k) after age 59.5

50% Reduction of Exclusion Amount for Estate and Gift Taxes

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- Current tax law (TCJA) has exclusion of \$11.58 million
- In 2025 the exemptions revert to pre-TCJA law (5,000,000 in 2011 dollars)
- Biden's proposal calls for an immediate halving of the current \$11.58 million lifetime exclusion amount that applies to both estate and gift tax



Other Changes



Other Changes

- Child Tax Credit increased from \$2,000 for children under 17 to \$3,600 for children under 6 and \$3,000 for all other children under 17)
- Child and Dependent Care Credit from \$3,000 to \$8,000 for one child and from \$6,000 to \$16,000 for two or more
- The First-Time Homebuyer Credit would be reintroduced as a refundable and advanceable credit of up to \$15,000
- A brand-new proposed Caregiver Credit of \$5,000 for informal long-term caregivers



Potential Planning Opportunities

Potential Considerations Related to Biden Tax Change

Potential Tax Change	Potential Consideration
Higher Tax Bracket	Potential acceleration of income, defer capital loss
Higher Long-Term Capital Gains	Carefully manage and spread long term gain over years: differences in tax rate of 23.8% and 43.4%
Flat Retirement Saving Tax Credit %	Complete reversal of current practice: Roth account much better for higher income earner
Loss of Step-Up Basis	Carefully planning to spread capital gains during life

Thank You

