



# Potential Impacts of Biden Tax Plan with Chris Pegg | 8.4.21

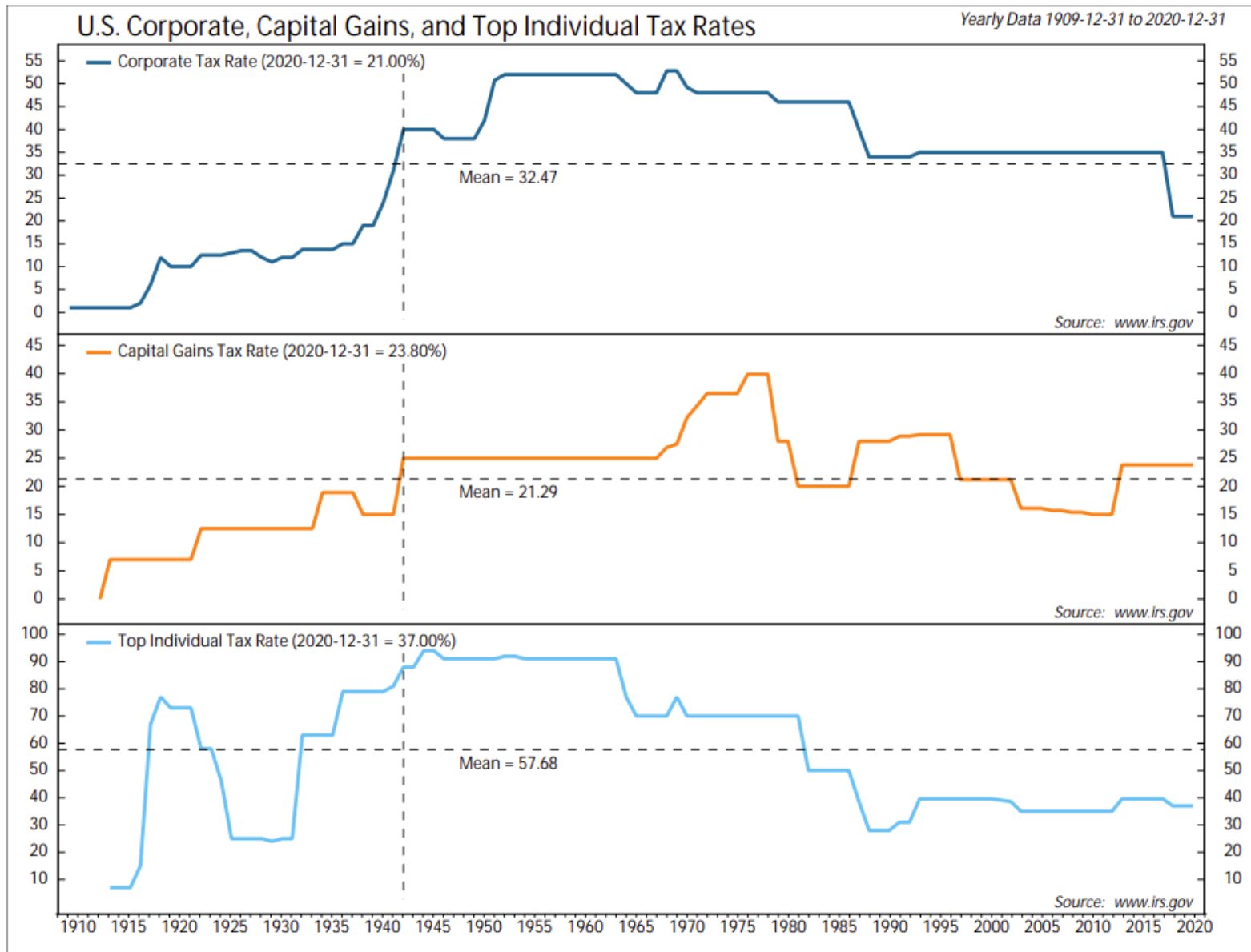
# The context for changes to the tax code

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- Georgia elections in January gave the Democrats a thin majority in the Senate
- Possibility of changes to the tax code through the Reconciliation process
- Strong populist sentiment – No tax increases under \$400K/income



# Tax Over Time



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(\*) See the Biden Administration's American Families Plan [online here](#). Proposed as retroactive to earlier in 2021 by the Administration's Fiscal Year 2022 Revenue Proposals. (\*\*) Discussed during Biden campaign though not in current Administration Proposals, [linked here](#)

# Income Tax Proposals

Most likely change is an increase in the tax rate

	Current Rates	Sunset (occurs on 1/1/2026)	Biden Administration Proposals
Income Taxes	Begins at <b>10%</b> and highest rate is <b>37%</b> beginning at \$523K/\$628K	Highest rate rises to 39.6%	39.6% on taxable income over \$400,000*



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# Capital Gains Proposals

- Positioned as affecting very few, but will impact many who have one-time liquidation events
- Overall critique of the concept of capital gains

	Current Rates	Sunset (occurs on 1/1/2026)	Biden Administration Proposals
Capital Gains	Top federal rate of 20%	Top federal rate of 20%	39.6% on taxable income over \$1 million* (plus 3.8% net investment tax)



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# Social Security Proposals

- Not included in recent pronouncements, but regularly discussed by the campaign and now administration.
- Tough to write about due to complexity, but most impactful change of any of the proposals.

	Current Rates	Sunset (occurs on 1/1/2026)	Biden Administration Proposals
Social Security Taxes	Rate of 12.4% of wages up to \$142,800	N/A	Current Social Security tax <i>plus</i> 12.4% of all wages in excess of \$400,000**



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# Restrictions on Like-Kind Exchanges

- Strategy defers capital gains on real estate for years
- Change could add significant friction to the market

	Current Rates	Sunset	Biden Administration Proposals
Section 1031- Like-Kind Exchanges	Unlimited tax deferral for proceeds from the sale of investment real estate if reinvested in real estate.	No Sunset	Limited to \$500K of annual deferral per taxpayer**



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# Deduction Limitations

- State and Local Tax deduction (SALT)
- 28% limitation of itemized deductions

	Current Rates	Sunset	Biden Administration Proposals
Deduction Limitations	SALT deduction limited to \$10,000	SALT limitations expire in 2026	Limitation of deduction to 28% for income over \$400K***



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# Capital Gains Tax at Death

- Death would become a recognition event
- Capital gains rate would be 39.6%

	Current Rates	Sunset	Biden Administration Proposals
Capital Gains Tax at Death	Basis step-up for assets included in the estate	No Sunset	Eliminate basis step-up <u>and</u> treat death as a recognition event**  Proposal to tax trust assets periodically**



# Estate Tax

- IRS has said no claw-back or penalties for use
- Transfer strategies must be considered now

	Current Rates	Sunset (occurs on 1/1/2026)	Biden Administration Proposals
Estate Tax	\$11.70MM Exemption per person  40% Estate Tax rate	\$5MM Exemption per person (inflation adjusted from 2011)  40% tax rate	Exemption of \$3.5MM*  45% tax rate*



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# Wealth Tax

- No Biden proposal – but California and Warren are pushing for it
- Obstacles may be easier to traverse than expected

	Current Rates	Sunset	Biden Administration Proposals
Wealth Tax	No Wealth Tax	N/A	No current proposal from the Biden Administration***



# Bottom Line

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- Major tax reform is always tumultuous
- There will be surprises
- There will be opportunities
- Act now if it makes sense, but don't let it deter planning in process
- Q & A



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# Executive Summary

- Slide 2: Summarizes the issues related to the Democratic majority in the United States Senate, the process of reconciliation and the strong populist sentiment that exists.
- Slide 3: This chart demonstrates the various rates of corporate tax, capital gains tax and individual income tax from 1910 to the present
- Slide 4: Indicates the current income tax rate, the timing for that rate to “sunset” and the rate proposed by the Biden administration.
- Slide 5: Indicates the current capital gains tax rate, states that there is no “sunset” for this rate and includes the capital gain rate proposed by the Biden administration.
- Slide 6: Indicates the current social security tax rate and discusses the Biden administration’s desire to apply such tax to earned income over \$400K of income.
- Slide 7: Discusses the unlimited capital gains tax deferral available through Like-Kind exchanges and indicates the Biden administration’s desires to restrict such deferral to \$500K/year.
- Slide 8: Reviews the current limitations on state and local tax deductions and discusses the Biden administration’s proposal to limit the effect of itemized deductions to 28%.
- Slide 9: Discusses the current step-up in basis regime at death and discusses the Biden administration’s proposal to eliminate such basis step-up and treat death as a recognition event.
- Slide 10: Discusses the current estate and gift tax exemption amount, the timing for the “sunset” and the Biden administration’s efforts to reduce the exemption earlier than the “sunset” and the administration’s comments about increasing the estate tax rate.
- Slide 11: Discusses the concept of a wealth tax, currently proposed in California legislature and the United States Senate.
- Slide 12: Summarizes the facts that tax reform will be tumultuous, will provide surprises and opportunities and should not deter clients from planning.



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## Questions?

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