

ELECTION 2020: JOE BIDEN'S TAX PROPOSALS

Democratic presidential nominee Joe Biden's campaign has proposed several new tax policies that are estimated to raise tax revenue by \$3.05 trillion over the next decade (Source: The Tax Foundation). Key provisions include an increase in taxes for individuals with income above \$400,000 – including raising income, capital gains, and payroll taxes. Biden's plan would also raise taxes on corporations (to 28%), return the gift and estate tax exemption to 2009 levels of \$3.5 million per person, and proposes a variety of new tax credits and expansions to existing credits. Below we have outlined a handful of the key provisions:

Trump PROPOSED: The Trump administration passed the **Tax Cuts and Jobs Act (TCJA)** in late 2017 through a Republican controlled House and Senate. Since the TCJA is scheduled to sunset in 2025, in his 2020 election campaign most of the tax policy that Donald Trump has proposed involves making the current exemptions, rates and deductions **permanent**, with few further changes.

INDIVIDUAL TAX RATES

- CURRENT: 37% top marginal rate.
- **Biden PROPOSED:** Increase top marginal rate to 39.6%.

QUALIFIED DIVIDENDS & LONG-TERM GAINS

- CURRENT: Taxed at 15% for most, or 20% for top earners, if held for more than one year.
- **Biden PROPOSED:** For taxpayers with over \$1 million of income, tax at 39.6%.

PAYROLL TAXES

- CURRENT: 12.4% Social Security tax on self-employment earnings up to \$137,700 (2020 limit), plus 2.9% Medicare tax on all self-employment earnings, plus 0.9% Medicare tax on wages over \$200,000.
- **Biden PROPOSED:** Keep the current taxes and thresholds, but also apply the 12.4% Social Security tax on wages over \$400,000, split between the employer and employee.

CORPORATE TAX RATE

- CURRENT: 21% top marginal rate.
- **Biden PROPOSED:** Increase top marginal rate to 28%.

LIKE-KIND EXCHANGES (1031 EXCHANGE)

- CURRENT: Taxpayers can defer taxes if real property is sold for a capital gain and the proceeds are reinvested into other real property within the required timeframe.
- **Biden PROPOSED:** Repeal of like-kind exchanges for taxpayers with income over \$400,000.

GIFT & ESTATE TAXES*

- CURRENT: \$11.58 million lifetime gift and estate tax exemption per person (2020 limit) through 2025. 40% tax on any transfers above this exemption.
- **Biden PROPOSED:** Return the lifetime gift and estate tax exemption to the 2009 level of \$3.5 million per person, with a 45% transfer tax.

BASIS STEP-UP

- CURRENT: Inherited assets receive a basis equal to the FMV as of the date of death of the decedent.
- **Biden PROPOSED:** Eliminate step-up in basis and possibly tax unrealized capital gains at death on any assets not passing to a surviving spouse or charity.

*See our second resource, "Election 2020: Estate Planning Opportunities", for a deeper analysis of proposed changes to the gift and estate tax exemption, and planning opportunities with the potential to reduce estate tax exposure.

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ADDITIONAL TAX PROPOSALS

RETIREMENT ACCOUNTS

- **Biden PROPOSED:** Eliminate the tax deduction for contributions to IRAs, 401(k)s, 403(b)s, and other pre-tax accounts, and replace it with a new credit that would be (regardless of a taxpayer's income) equal to a specified percentage of the amount contributed to the pre-tax account.

CAP ON ITEMIZED DEDUCTIONS

- **Biden PROPOSED:** Cap the value of the rate at which itemized deductions can be taken to 28%, which affects those in the tax brackets above 28%, as their rate to determine itemized deductions would be reduced from their income tax bracket.

For example, a taxpayer in the "new" top tax bracket of 39.6% who donates \$10,000 to charity will receive a \$2,800 reduction in their taxes ($\$10,000 \times 28\% \text{ cap} = \$2,800$) compared to the current reduction in their tax bill of \$3,960 ($\$10,000 \times 39.6\% \text{ tax rate} = \$3,960$) – a \$1,160 difference.

QBI (20%) DEDUCTION FOR BUSINESSES

- **Biden PROPOSED:** Elimination of the Qualified Business Income (QBI) tax deduction for pass-through business owners (partnerships, LLCs, S corporations, and sole proprietors) whose individual annual income is \$400,000 or more.

NEW & EXPANDED TAX CREDITS

- **Biden PROPOSED:**

- Child Tax Credit: The current credit of \$2,000 per child under age 17 would be increased to \$3,600 for children under age 6, and \$3,000 for all other children under age 17.

- Child & Dependent Care Credit: The current credit of a maximum of \$3,000 for one child, and \$6,000 for two or more children would be expanded to a refundable credit of \$8,000 for one child, and \$16,000 credit for two or more children.

- First Time Homebuyer Credit: A new refundable credit of up to \$15,000. The credit would most likely mirror the First-Time Homebuyer Credit first introduced during the Bush administration in 2008, and later expanded by the Obama administration in 2009.

- Caregiver Credit: A new credit of up to \$5,000 would be created to assist individuals who provide informal care to those in need of long-term care.

It is difficult to determine which policy initiatives either candidate will eventually pursue, but we will continue to monitor and keep you informed of developments to both plans. If you would like to schedule a more in-depth review of your situation, and how the proposed changes would impact you, please let us know.

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