Greetings,

With the SECURE Act signed into law at the end of 2019 and the Tax Cut and Jobs Act (TCJA) due to sunset in 2025, we have emphasized the importance of estate planning and acting now as we are likely in the lowest tax environment we will ever see (estate tax included). **However, with a new administration, there are major tax changes being proposed that have the potential to affect high-income earners ($400,000+) and those with highly appreciated assets.**

Given the unpredictable political climate, we have listed the potential tax changes to come as discussed in Biden's Tax Proposal as well as the most recent changes to tax law and actions to consider based on each item.

Raising Top Ordinary Income Rates

Biden's tax proposal calls for raising the top tax rate to 39.6%, from 37%, likely for those who earn more than $400,000. This was the highest rate before the 2017 Tax Cuts and Jobs Act, which lowered it to the current 37%. The 39.6% rate would apply to the top 1% of Americans, according to the White House.

Actions To Consider:

1. Look for tax diversification and tax deferral opportunities such as annuities, 529s, and HSAs.
2. Consider all tax-efficient investments and strategies, such as tax-loss trading, maximizing retirement contributions, and so on.
3. Consider purchasing cash value life insurance for tax-free growth and death benefits.
4. Consider asset location strategies and investing in individual stocks and ETF's, and municipal bonds as most are exempt from federal taxes and some are exempt from state and local taxes.

$1M+ in Capital Gains Taxed at Ordinary Income Rate

For households earning more than $1 million, Biden is proposing taxing long-term capital gains and dividends at his higher top ordinary income tax rate of 39.6%—nearly double the current top 20% tax rate on such income. Biden's plan means that the top federal tax rate for the highest earners for capital gains would rise from 23.8% to 43.4%, when you factor in a 3.8% surtax on investment gains implemented as part of the Affordable Care Act.

Actions To Consider:

1. Consider increasing contributions to 401k's, IRA's, defined benefit plans, and Roth accounts.
2. Leverage property and investments (borrow against appreciated property and lending back).
3. Consider accelerating sales and income into 2021, buy and hold, tax-loss trading and other tax-efficient investment strategies.
4. Consider all strategies to drive down income in future years.

Limited Step Up in Basis at Death

Under current law, when a property owner dies, the cost basis of an asset passed to a beneficiary is "stepped up." This means the current value of the asset becomes the basis. For example, suppose you inherit a house that was purchased years ago for $100,000 and it is now worth $500,000. You will receive a step up from the original cost basis from $100,000 to $500,000. If you sell the property right away, you will not owe any capital gains taxes.

Under Biden's proposal, the untaxed gains on investments held at death—such as stock, land, or a home—would likely be taxed at a top rate of 39.6%, above an exemption of $1 million per individual, plus $250,000 more for a home. For married couples, the total exemption would be doubled, to up to $2.5 million of gains.

Actions To Consider:

1. Consider obtaining life insurance to create estate liquidity and for tax payments.
2. Consider tax-loss trading and basis management during life.
3. Evaluate assets to be left to beneficiaries and determine if certain assets make more sense than others in regard to potential taxation.
4. Those that are charitably inclined may want to gift highly appreciated assets to charity.

Decreasing of Lifetime Exclusion (and Eventual Sunsetting of TCJA in 2025)

After the passing of the Tax Cuts and Jobs Act (TCJA), the gift and estate tax exemption was doubled from $5 million to $10 million (adjusted annually for inflation) starting in 2018. Therefore, the exemption is up to $11.7 million per person in 2021. Biden's tax proposal indicates the possibility of the exemption being reduced to between $3 million – $5 million. If not now, the favorable estate tax changes in the TCJA are currently scheduled to sunset after 2025 and the exemption will go back down to $5 million per individual.

Actions To Consider:

1. Use it or lose it! Use the large gift exemption now as the IRS announced at the end of 2020 that there will be no retroactive tax on gifts made using the exemption in prior years should the exemption be reduced.
2. Consider gifting or transferring assets out of your estate when interest rates and asset values are low.
3. Gift before estate tax laws change to prevent any planning mistakes or challenges that can come if you are forced to rush the process.
4. Consider charitable giving strategies and other advanced gifting strategies

including Trusts.

SECURE Act

Arguably the biggest change the SECURE Act presents is doing away with "Stretch IRA's" for non-spouse beneficiaries. The SECURE Act no longer allows non-spouse beneficiaries who inherit a retirement account to "stretch" out distributions over the beneficiary's life when liquidating the account. Instead, the bill requires liquidations within 10 years of the newly inherited account, which inevitably will increase taxes and decrease the value of the Inherited IRA.

Also, anyone who has listed a Trust as a beneficiary must review it as the SECURE Act makes that situation problematic in many instances.

Actions To Consider:

1. Consider drawing down large Traditional IRA balances in lower-income years and paying taxes on the IRA monies now.
2. Consider annual partial Roth conversions.
3. Consider leaving Roth (after-tax) retirement assets to non-spouse beneficiaries.
4. Review retirement account beneficiaries to ensure a Trust is not listed as the beneficiary.

Act Now!

With major tax changes on the horizon, now is the time to prepare. Although we cannot be certain of when and if the changes will come, taking the "wait and see" approach may be more costly than ever.

If you do not have an estate tax planning structure or a plan in process, we recommend you start before the demand for these services causes many firms to be unavailable to assist you before a new law may be enacted.

Thanks and Regards,

Debra Taylor, CPA/PFS, JD, CDFA
Founder and Lead Wealth Advisor

Taylor Financial Group, LLC
795 Franklin Ave
Bldg C, Suite 202
Franklin Lakes, NJ 07417
T. 201-891-1130

F. 201-891-1136
office@taylorfinancialgroup.com
www.taylorfinancialgroup.com

Source: https://home.treasury.gov/system/files/136/MadeInAmericaTaxPlan_Report.pdf