

THE BIDEN TAX PROPOSAL

In late April, President Joe Biden introduced the much-anticipated American Jobs Plan, which outlines an approach to spend roughly \$2.2 trillion on the nation's infrastructure and other projects along with a proposal to increase taxes. The plan proposes tax policy changes affecting both individuals and corporations. For this piece, we've summarized some of the key points of the proposal related to individuals.

The initiatives that will take priority may become more clear in the weeks and months ahead. We are watching this closely and are having discussions internally, as well as with our professional partners, across all areas of planning that could be affected by potential policy changes. These potential changes will impact planning decisions including cash flows, portfolio allocations, philanthropic, and estate & tax planning.

At this point, there are more unknowns than knowns. What we do know, with history as a guide, is that there will be several versions and revisions of the proposal before any legislation is enacted in Washington. We will proactively work with clients to provide updates, as well as consider possible planning considerations.

PROPOSED TAX CHANGES

	CURRENT POLICY	BIDEN PROPOSAL
TOP INDIVIDUAL INCOME TAX RATE	Top rate is 37% for taxpayers with taxable income of \$518,400 and higher for single filers and \$622,050 for married couples filing jointly.	Restore of rate to pre-Tax Cuts and Jobs Act level of 39.6% which would impact taxpayers currently in the 35% and 37% marginal tax brackets.
LONG-TERM CAPITAL GAINS TAX	Long-term capital gains are taxed at a top rate of 23.8%. (Inclusive of the Affordable Care Act (ACA) 3.8% tax)	Long-term capital gains would be taxed as ordinary income (presumably at the reinstated marginal rate of 39.6%) for couples earning more than \$1 million. It is unknown if this is inclusive of the ACA 3.8% tax.
ESTATE TAX PROPOSALS	Gift, estate and generation skipping transfer exemptions at \$11,700,000 for single, \$23,400,000 married, rate at 40%. Annual exclusion amount for gifts, \$15,000.	At this time, no changes were announced to existing exemptions or tax rates – however, changes could be proposed at a later date.
COST BASIS FOR CAPITAL GAINS AT DEATH	Capital gains that pass directly to heirs receive a step-up in costs basis for income tax purposes.	Eliminate the step-up in cost basis for capital gains at death. The step-up would continue to apply for estates under \$400,000.
ITEMIZED DEDUCTIONS	Itemized deductions are valued at the taxpayer's top marginal rate.	Cap maximum value of itemized deductions to 28% for those in higher marginal tax brackets; reintroduce limitations on itemized deductions for those with taxable income above \$400,000.
PAYROLL TAXES	12.4% Social Security payroll tax applies only to the first \$137,700 of compensation.	Impose the 12.4% payroll tax on income above \$400,000 (tax also remains on the first \$137,000 of income).

