

# AMERICAN FAMILIES PLAN TO INVEST IN EDUCATION, CHILDCARE AND FAMILY PROGRAMS

On April 28, 2021, President Biden introduced the American Families Plan to a joint session of Congress. The plan confirms previous statements from the Biden administration, indicating that it would propose tax increases on wealthy households and tax breaks for low- and middle-income families.

The \$1.8 trillion plan consists of \$1 trillion in investments and \$800 billion in tax cuts. It proposes investments in education, including free universal preschool, two years of free community college and programs to address teacher shortages. The plan also addresses direct support for childcare, school-related nutrition programs and a national paid family and medical leave program.

The plan further proposes the following tax breaks for low- and middle-income families:

- Extend child tax credit increases in the American Rescue Plan Act through 2025 and make the credit permanently fully refundable
- Permanently extend the child and dependent care credit and make the credit refundable
- Permanently extend earned income tax credit for childless workers
- Extend expanded Affordable Care Act (ACA) premiums tax credits in the American Rescue Plan Act

The plan proposes to pay for those investments and tax breaks by:

- Increasing the top rate to 39.6% for households making over \$400,000
- Increasing tax rates on capital gains and qualified dividend income to 39.6% for households making over \$1 million
- Reducing the step-up in basis for gains in excess of \$1 million (\$2.5 million per couple when combined with existing real estate exemptions) at death and taxing the gains if property is not donated to charity
- Eliminating carried interest and taxing that income at ordinary income rates
- Eliminating like-kind exchanges for gains greater than \$500,000 on real estate exchanges
- Permanently extending excess business loss limitation rules
- Applying 3.8% net investment income tax consistently for those making over \$400,000
- Increasing IRS audits for higher-income individuals

The Biden administration estimates that these proposed tax increases will raise \$1.5 trillion over ten years.

Noticeably absent from the plan was any mention of reducing the estate tax exemption or raising the estate tax rate to 45%, which was a Biden campaign proposal. While the estate tax does not generate a large amount of revenue, reducing the federal estate tax exemption continues to be at the forefront of the Democrats' legislative plans.

The American Families Plan likely is more ambitious than what eventually will be implemented, and legislation that is eventually passed likely will not be retroactive. One cannot predict with certainty when and what the final outcome will be; however, tax increases seem inevitable. Proper tax planning remains essential.

Taxpayers are encouraged to contact their tax advisor to evaluate their current estate plans and discuss strategies for minimizing the impact of future potential tax changes.