

President Elect - Joe Biden Tax Proposal

January 12, 2021



Individual proposed changes:

	<u>Current</u>	<u>Proposed</u>
• Highest marginal tax rate	37%	39.6%
• Highest qualified dividend and capital gains rate*	20%	39.6%
• Social security tax on wages over \$400,000	0%	12.4%

*for taxpayers with income over \$1MM. Also, may include Net Investment Income Tax of 3.8%.

Replacing the deduction for the 401K for a tax credit.

Caps the tax benefit of itemized deductions to 28 percent of value for those earning more than \$400,000, which means that taxpayers earning above that income threshold with tax rates higher than 28 percent would face limited itemized deductions. Also, restores the Pease limitation on itemized deductions for taxable incomes above \$400,000.

For 2021 and as long as economic conditions require, increases the Child Tax Credit (CTC) from a maximum value of \$2,000 to \$3,000 for children 17 or younger, while providing a \$600 bonus credit for children under 6. The CTC would also be made fully refundable, removing the \$2,500 reimbursement threshold and 15 percent phase-in rate

Expands the Child and Dependent Care Tax Credit (CDCTC) from a maximum of \$3,000 in qualified expenses to \$8,000 (\$16,000 for multiple dependents) and increases the maximum reimbursement rate from 35 percent to 50 percent.

Reestablishes the First-Time Homebuyers' Tax Credit, which was originally created during the Great Recession to help the housing market. Biden's homebuyers' credit would provide up to \$15,000 for first-time homebuyers.

Business proposed changes:

<u>Current</u>	<u>Proposed</u>
21%	28%

- Highest marginal tax rate

Creates a 15% minimum tax on corporations with book profits of \$100 million or higher.

Phases out the qualified business income deduction (Section 199A) for filers with taxable income above \$400,000.

Eliminating certain real estate industry tax provisions.

- Eliminate the \$25K exemption from passive loss rules
- Eliminate 1031 Like Kind Exchanges
- Eliminate accelerated depreciation for certain real estate (risk for cost segregation studies)
- Eliminate qualified business income deduction for profitable real estate activities

Estate proposed changes:

<u>Current</u>	<u>Proposed</u>
\$11.58MM	\$3.5MM

- Estate Tax Exemption

Eliminates step-up in basis for capital gains taxation.

Sources:

<https://taxfoundation.org/joe-biden-tax-plan-2020/>

<https://www.marketwatch.com/story/10-biden-tax-proposals-that-will-sail-through-a-democratic-controlled-senate-and-how-to-prepare-for-them-11609958777>