What Does a Biden Tax Plan Mean for You?

With Biden leading in the polls in the final days prior to the election, we understand that many of our clients and readers have questions as to potential tax changes under a Biden/Harris administration. The Tax Foundation, a bi-partisan tax policy research organization, indicates that Biden's tax plan would raise over $3.8 trillion in tax over the next decade. Revenue collection would be reduced to $3.2 trillion after taking into account a reduction in the economy and other macroeconomic effects.

- Restores the top individual tax rate for taxable income above $400,000 from 37% to 39.6%.
- Long-term capital gains and qualified dividends would be taxed at the ordinary tax rate of 39.6% for taxpayers with over $1 million in income. Currently, this income is taxed as 15% and 20%, depending on the level of income.
- Eliminates the step-up in basis of appreciated property at death.
- Rolls back the lifetime gift and estate tax exemption to pre-Trump levels ($5.6 million).
- Reduces losses allowed on real estate investments and eliminates 1031 exchanges.
- Restores the full deduction for state and local income taxes. This is a benefit to high-income earners living in states with income tax, such as New York and California.
- Caps the benefits of itemized deductions to 28% of value, which means that taxpayers in tax brackets with tax rates higher than 28% will face limited itemized deductions.
- Restores the Pease limitation on itemized deductions for taxpayers with taxable income greater than $400,000. The Pease limitation effectively reduces the amount a taxpayer can deduct above a certain income threshold.
- Phases out the 20% Qualified Business Income Deduction for taxpayers with taxable income greater than $400,000.
- Increases the 12.4% Social Security payroll tax on income earned above $400,000. This would create a "donut hole" in the current Social Security payroll tax, where wages between $137,700, the current wage cap, and $400,000 are not taxed. The tax would be paid by both employees and employers, at 6.2% each.
- Increases the Child and Dependent care Tax Credit. Restores the full Electric Vehicle Tax Credit.
- Increases the corporate rate from the current 21% rate to 28%.
- Imposes a 15% minimum tax on corporations with book income of $100 million or higher. The minimum tax is structured as an alternative minimum tax – corporations will pay the greater of their regular corporate income tax or the 15% minimum tax. Allowances would still be made for Net Operating Losses and foreign tax credits.

For these changes to become law, Joe Biden must first win the election and then must move his tax plan through Congress. Details of these proposed changes have not been formulated and it is unknown if they will be retroactive or take effect prospectively. While it is too speculative to take action on these changes, it is not too early to give thought to a defensive tax plan.

- Consider timing gains and losses. If you were considering selling assets, selling appreciated property in 2020 allows you to capture the lower tax rates. If you have capital losses, you may consider postponing selling the assets until 2021 when they will offset gains at the higher tax rates.
- Consider making a Roth conversion in 2020 to take advantage of lower current tax rates

and move funds into a tax-deferred account that will not be taxed at higher rates when distributed in the future.

- You may consider accelerating a bonus into 2020 to avoid higher ordinary tax rates and additional social security tax.
- Deferring deductions, such as donations, to 2021 may result in higher tax savings.
- You may consider exercising stock options in 2020 to accelerate income.
- If Biden eliminates the step-up in basis upon death and reduces the lifetime exclusion, your estate plan may be obsolete. You may consider making current gifts of your entire $11.6 million lifetime exemption in 2020. If these changes take place, there may be the largest transfer of wealth in the history of our country.

As of today, Biden is ahead +8.6 points in the polls. Recent history has shown us that polls are not a crystal ball in the presidential election, but the tax and investment advisors at Evergreen are diligently planning for the implications of all reasonable outcomes. Do not hesitate to reach out to us if you have questions or would like to further discuss these potential changes with our tax team.

To seamlessly integrate your investment portfolio and financial plan with maximum tax-efficiency requires a team with expertise in each of those areas. We believe this integration is best achieved when your CPA, CFP®, and Wealth Consultant are working under one roof.

We remove the need for clients to have to serve as the middle man between investment manager and CPA. Evergreen clients can spend more time focusing on their work and families and less time facilitating meetings and communication when they utilize the all-in-one investment and tax service Evergreen provides.

Disclosure: This material has been prepared or is distributed solely for informational purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Any opinions, recommendations, and assumptions included in this presentation are based upon current market conditions, reflect our judgment as of the date of this presentation, and are subject to change. Past performance is no guarantee of future results. All investments involve risk including the loss of principal. All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed and Evergreen makes no representation as to its accuracy or completeness.

Any accounting, business or tax advice contained in this communication is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Evergreen Sterling Kuder would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.