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THE AMERICAN FAMILIES PLAN

AND PRESIDENT BIDEN'S PROPOSED CHANGES TO TAX LAW

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In his first joint address to Congress on Wednesday night, President Biden outlined his proposed American Families Plan. The plan includes a variety of programs focused on childcare and education, many of which would be funded by changes to tax law. Following is a summary of these proposed tax law changes.

Income tax

Currently, the top tax bracket for individual taxpayers is 37% for ordinary income and 20% for long-term capital gains, plus an additional 3.8% Net Investment Income Tax (NIIT) that applies to interest, dividends, capital gains and other passive income sources. President Biden's proposal would increase the top ordinary income tax rate to 39.6%, as it was prior to 2018. Based on current tax brackets, this rate would apply to income greater than \$523,600 for individuals and \$628,300 for married couples.

The more substantial change would be to long-term capital gains taxes, which would be taxed at the higher ordinary income tax rates for any taxpayers with income greater than \$1 million. For taxpayers with that level of income, this would effectively change the tax rate from 23.8% to 43.4% when including income tax and the NIIT. This presents significant tax planning opportunities when considering when to sell appreciated assets.

Estate tax

The proposed plan also calls for estate tax changes. Currently, all assets held at the time of death receive a step up in basis to the current value. For example, if you purchased a stock for \$1,000 that is then worth \$4,000 at the time of your death, your heir would own the stock at a cost basis of \$4,000. If your heir then sells the stock immediately, the \$3,000 of appreciated assets is not subject to income tax.

President Biden's proposal does not completely eliminate the step up, but it comes close by providing an exemption for the first \$1 million of appreciated assets. Any assets in excess of \$1 million would be deemed to have sold at the taxpayer's death and would therefore be subject to capital gains tax at that time.

Other proposed changes

President Biden has also considered a variety of other changes to tax law.

- The president's recently announced infrastructure plan, The American Jobs Plan, includes increases to corporate tax rates from 21% to 28%.
- One item discussed at length during the campaign that was not included in his proposal is an increase on payroll taxes for earned income greater than \$400,000.
- For families, credits that were recently expanded through the American Rescue Plan would be extended. These credits include the expanded Child and Dependent Care Tax Credit and the Child Tax Credit of \$3,000 per child, or \$3,600 for children younger than age six. The Child Tax Credit would also be made permanently fully refundable.
- President Biden also included substantial increases to IRS funding over the next 10 years to modernize its services and increase the frequency of audits of high-income taxpayers. Increases in revenue from enforcement are intended to offset some of the costs of the additional programs.

As the proposal is introduced into Congress and debated, there will likely be many changes to it before it becomes law. We will continue to guide you through the substantive changes that are likely to come and how they may impact you.

In the meantime, if you have any questions, please do not hesitate to reach out to your wealth manager.

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