

A QUICK LOOK AT PRESIDENT BIDEN'S TAX PLAN

On April 28, President Biden unveiled the American Families Plan, which seeks to expand funding for education, childcare, and paid leave. To pay for these expansions, President Biden has proposed raising taxes for some Americans. Because these changes could impact investors, it's important you know about them well in advance so that we can plan ahead.

NEW TOP TAX RATE

FROM 37% TO 39.6%



President Biden's tax plan would raise the top income tax rate to 39.6%, up from 37%. According to the Administrations Fiscal Year 2022 Revenue Proposals, this tax kicks in for individuals earning more than \$523,600 per year and married couples earning more than \$628,300.

TOP TAX RATE ON CAPITAL GAINS

FROM 20% TO 39.6%

The top tax rate on capital gains would also be 39.6%, up from the current 20%. (Essentially, capital gains would be taxed as ordinary income for investors in this group.) Note that this rate only applies to investors with an annual income of more than \$1 million.



CAPITAL GAINS AFTER DEATH

ASSET APPRECIATION SUBJECT TO CAPITAL GAINS

Currently, when a person dies, whatever appreciation their assets have enjoyed are not taxed. Instead, they are transferred to heirs at the current market value, negating any capital gains.

Under President Biden's plan, the first \$1 million in passed-on gains would remain tax free, but any appreciation over that amount would be subject to the capital gains tax after the owner dies.



MEDICARE SURCHARGE

3.8% TAX EXPANDED TO ALL INCOME OVER \$400,000

The Affordable Care Act instituted a 3.8% tax on investment income for individuals making more than \$200,000 and \$250,000, but there were many exceptions to this rule. Biden's plan would expand the 3.8% tax to all income over \$400,000.



EXPANDING IRS AUDITS

\$80 BILLION OVER 10 YEARS

IRS audit rates on those making more than \$1 million per year fell 80% between 2011 and 2018. President Biden's plan would provide an additional \$80 billion over 10 years to the IRS specifically for conducting more -- and tougher -- audits on households making over \$400,000 in annual income.



Sources: Greg Jacurci, "Biden wants to raise \$1.5 trillion by taxing the rich. Here's how:", CNBC, April 29, 2021. <https://www.cnbc.com/2021/04/29/how-biden-tax-plan-would-hit-the-wealthy.html>

Stephen Gandel, "Here's what's in Biden's \$3.5 trillion plan to tax the rich," CBS News, May 1, 2021. <https://www.cbsnews.com/news/biden-tax-increase-rich/>

"General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals." Department of the Treasury, May 2021. <https://home.treasury.gov/system/files/131/General-Explanations-FY2022.pdf>

