Tax Changes the Election Could Bring

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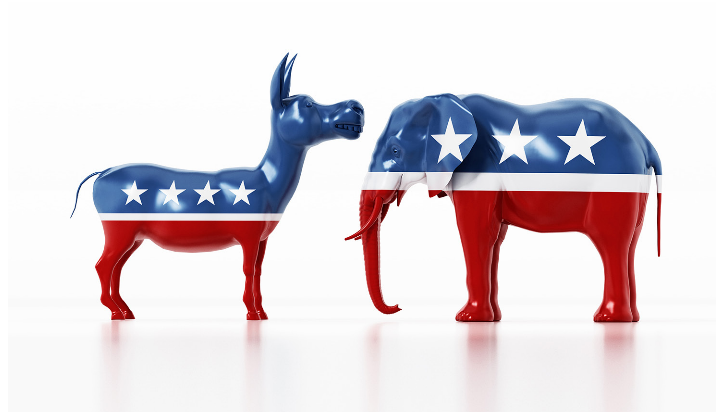
As Americans head to the polls, the Arnerich Massena planning team thought it would be helpful to take one last look at potential tax changes on the horizon. Should Democrats take the White House and Senate, there is a good chance we'll see changes to the income, gains, and estate tax structures that affect families.



Former Vice President Biden has discussed the following changes if we see a Democrat Administration:

INCOME/PAYROLL TAX:

- Raising the rate on the top federal income tax bracket by 2.6%, from 37% to 39.6%. An individual taxpayer reaches this bracket at about $518,000 in 2020, while a married couple does so at $ $622,000.
- These same taxpayers would see a cap on their itemized deductions on income above $400,000. This provision would cap deductions at 28%, while the taxpayer may be in a federal bracket substantially higher than that.
- Taxpayers may also see the elimination of pre-tax contributions to retirement accounts, in exchange for a tax credit of up to 26% that employees could take on contributions. This sort of structure may make Backdoor Roth IRAs more attractive for higher income earners.
- Taxpayers with income above $400,000 may also see the elimination of the Qualified Business Interest deduction for pass-through entities. the creation of this deduction was a major sticking point when the Tax Cuts and Jobs Act was passed in 2017.
- Creation of a "Donut Hole" Social Security Tax, where employees pay 6.2% Social Security Tax on the first $142,000 of wages, then not on the next $258,000 of earnings, with the tax kicking in again on dollars earned above $400,000.
- Expansion of the Child Tax Credit, First Time Homebuyer Credit, Caregiver Credit, and Dependent Care Credit.

CAPITAL GAINS:

- Elimination of long-term capital gain rates for taxpayers with income over $1,000,000. These taxpayers would instead pay ordinary income tax rates on all gains, short-term or long-term.
- Elimination of the 1031 "like-kind" exchange rules. These rules currently allow investors to defer gains on the sale of real estate, so long as similar real estate is purchased shortly thereafter.
- Elimination of the step-up in cost basis at death. Several variations of this idea are out there, but the idea is similar – collect tax on assets that have appreciated during someone's lifetime and are then transferred at death. The current rules allow the recipient to re-set the tax basis upon receipt of the asset.

ESTATE TAX:

- Reducing the federal estate tax exemption from $11.58m per person to somewhere closer to $5m per person. There have been a variety of claims made on this subject during the campaign, with come pointing to the 1016 number, adjusted for inflation (approx. $6m) and others pointing to the 2006 number ($3.5m).
- Elimination of valuation discounts for marketability and control. Generations of taxpayers have discounted the value of family-held businesses, writing down the value of the assets by 20-30% on estate returns, under the argument that a buyer would not pay full price in an arms-length transaction if they were going to be stuck going into business with the rest of the family. Democrats discussed tightening these restrictions during the Obama presidency and may revisit the issue if given the chance to re-write our tax code.

Elections have consequences and this year's election could likely affect our tax code in meaningful ways. Please contact our planning team if you have questions about how the election outcome may impact your family finances.