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Breaking Down President Biden's Tax Plan: Who Pays More, Who Pays Less, and What It Means for You

Let's take a look at Biden's tax plan.

During his campaign trail, President Biden always replied to the question about raising taxes with the same answer, "I will raise taxes for anybody making over $400,000," and anyone making less than that would face "no new taxes," Biden said in an ABC News joint interview with VP Kamala Harris on August 2020. Still, hundreds of posts across social media saying the opposite became viral, people claiming that the Democratic candidate will raise taxes to every single American, and even a meme in 2020 saying that if you receive a bi-weekly gross salary of $3,000, you would pay 39.6% in taxes, "nearly half your paycheck" in taxes read the meme posted on Project Republic Facebook page, a media company that supports former President Donald Trump according to its Twitter bio. Fast-forward to this year, the Joe Biden and his team have continuously said that that is simply "not true." On March 15, press secretary Jen Psaki said President Biden remains committed to his campaign pledge that no one earning less than $400,000 should see an increase in their taxes. "His priority and focus has always been on people paying their fair share, and also focusing on corporations that may not be paying their fair either,that remains his overarching approach, but there isn't a package yet" Psaki said.

While Congress has not yet receive proposal, here are the key points:

Individuals and Families

- Taxpayers earning $400,000 or more would pay additional payroll taxes.
- The Top individual federal income tax rate would go back to the pre-Trump era rate: it would rise from 37% to 39.6%
- Biden's plan would ask to those making more than $1 million to pay the same rate on investment income that they do on their wages.
- The Social Security tax would be extended to higher income levels

According to the latest U.S. Census figures, 47% of renters believe they will likely face eviction over the next two months, and more than 1 in 5 homeowners consider foreclosure likely. Biden's plan would provide a tax relief for working families, and would reduce taxes on the middle class, per Biden's team.

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Wealthy Individuals

Taxpayers whose income exceeds $1 million would pay the same rate on investment income as applies to wages. In addition, the carried interest "loophole," claimed by many private-equity and hedge-fund managers, would be eliminated. These fund managers pay capital gains tax rates—currently levied at 20%—instead of ordinary income rates on their "carried interests," i.e., high, fixed-rate participations in their funds' profits, while making little or no capital investment.

Corporate

All corporations would be subject to a 15 percent alternative minimum tax on book profits of $100 million and higher, aiming to prevent America's most profitable companies like Amazon, Apple, Microsoft, Bank of America Corp, General Electric, Procter & Gamble, and more, from paying no tax, according to Biden's campaign.

- It proposes a tax penalty on corporations that ship jobs overseas in order to sell products back to America, to incentive investments in infrastructure and green energy, transportation, and manufacturing.
- The corporate tax rate would increase from 21 to 28 percent.
- Businesses would be offered a variety of new tax credits, ranging from benefits to deal with workforce layoffs to small business incentives to provide retirement savings plans.

Retirement

There's no indication of proposed taxes on 401(k) or IRA retirement accounts on Biden's official campaign website. The Democratic presidential nominee said he wants to equalize retirement plan tax benefits across the income scale. Biden would accomplish this by eliminating the current deduction for contributions while providing a 26% refundable tax credit for each dollar contributed to a traditional retirement account, according to The Tax Foundation. The tax credit would be deposited into the retirement account as a matching contribution. (USA TODAY. "Fact check: Biden voted to tax Social security, wants to reform retirements benefits," Chelsey Cox, Anna Staver, 2020)

The Biden plan would include rules, details unspecified, to equalize the tax benefits for contributions to 401(k)s and other retirement plans across the income scale.

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Depending on the design of the new provision, the impact on high-income taxpayers could be substantial. For example, if the proposed revision of the 401(k)-contribution benefit entitled a taxpayer with a marginal tax rate of 35% to a 20% tax credit instead of the present law's tax deduction, the tax savings for the current, maximum annual contribution of $19,500 would decline from $6,852 to $3,900.

Talking about retirement, a kind reminder that Qualified Charitable Distributions are back

People in their 70s and up please remember that this year the Qualified Charitable Distributions are back! Which allow Individual Retirement Account (IRA) holders to divert some of their federally taxable required distributions to charity. That lets the IRA holders make donations and reduce their federally taxable income — while still letting them take the standard deduction on their federal tax returns.

Benefits under President Biden's Tax Plan Proposal

The first-time home-buyers credit would be restored

President Biden would reinstate the first-time homebuyer tax credit, originally created to help families buy their first homes and build wealth in the Great Recession — up to $15,000. Building off of a temporary tax credit expanded as part of the Recovery Act, homebuyers, under the Biden's tax plan, would receive the tax credit when they make the purchase instead of waiting to receive the assistance when they file taxes the following year.

Health Insurance Costs

Biden's plan would provide refundable tax credits for healthcare insurance premiums intended to ensure that families spend no more than 8.5 percent of their income on health insurance by expanding access to refundable health premium tax credits. In addition, the plan would increase tax benefits for the purchase of long-term care insurance.

Tax relief for student debt forgiveness

According to Biden's tax plan, it would afford some tax relief for the burden of student debt, in addition to adding more generous forgiveness and payment-deferral rules for present student loan programs. Under the present law, the amount of any loan forgiveness granted a borrower generally must be reported as taxable

income, thereby imposing a new, similarly challenging economic burden. The tax feature of the Biden student loan assistance would forgive the balance of a borrower's outstanding student loan debt after 20 years without imposing any tax liability.

Child and Dependent Tax Credit Expansion

Biden's plan would expand the maximum Child and Dependent Tax Credit, or CTC. It would rise from $3,000 to $8,000 ($16,000 for more than one dependent), as proposed in the House-passed HEROES Act. Under his plan, for 2021 and then as long as economic conditions require:

- A teacher and an electrician with a 7th grader and a newborn will receive an additional $2600 – or $6,600 total.
- A nurse and a grocery store clerk with a 2-year-old and a 5-year-old will receive an additional $3,200 — or $7,200 total.
- A firefighter with three teenagers will receive an additional $3,000 — or $9,000 total.
- A letter carrier and a child-care worker with children ages three, five, seven, and nine will receive an additional $5,200 — or $13,200 total.

Payroll

Under Biden's tax plan would target high-income taxpayers: it would increase Social Security, and estate taxes.

The current Social Security payroll tax is at 6.2 percent for each employee and employer. An additional 6.2 percent would be imposed on employer and employees on all earned income of $400,000 or more.

Estate Tax Exemption

Under the Biden tax plan, the estate tax exemption would be reduced by approximately 50%.

Step-up in basis on death would be repealed

A stepped-up basis is used to calculate tax liabilities when a person receives inheritance assets and readjusts the value of an appreciated asset over a period of time. Under Biden's plan, it would repeal the present law

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"step-up in basis" rule that increases the tax basis for inherited assets to their full fair market value upon death. This rule—which 'carries over' an asset's tax basis from the testator to the heir—likely would entail a significantly greater overall tax burden with respect to transferred assets than would the decreased exemption. The current law "step-up in basis" rule, benefits all heirs, including those receiving modest assets such as decedents' residences or mutual fund shares from estates valued below the estate tax threshold. Under present law, inherited property receives a full fair market value tax basis. As a result, if the property has appreciated in value since its acquisition by the decedent, the inherent increase in the property's value as of its owner's death permanently escapes capital gains tax. If the heir subsequently sells the property, the heir's taxable gain will be limited to the increase in value over the stepped-up tax basis. (https://investor.vanguard.com/inherit/irs-taxes)

For families with extensive, appreciated real estate investments, for example, the step-up in basis upon death creates a significant motive for tax planning. While real estate investors may hold onto property for generations, they also can diversify their assets during their lifetimes under the present tax code without having to pay tax on the increase in value. To diversify, they can use such tax-avoidance strategies as like-kind exchanges or contributions to partnerships or real estate investment trusts (REITs). These transactions allow tax-free, lifetime transfers but carry over the transferred realty's depreciated tax basis to the real estate, partnership interests or REIT shares received for the exchanges or contributions. Any unrealized gain in the original property is reflected in the tax basis of the replacement assets.

In short, many pre-Trump rates and benefits would be restored under Biden's tax plan: the first-time homebuyer tax credit, and changing some deductions to credits, to the advantage of lower-and-middle income individuals who would be eligible for these expanded credits. Biden's plan would offer tax relief for student debt forgiveness, and families would benefit from the Child and Dependent Tax Credit. Big corporations would see an increase in their current federal taxes, and taxpayers with incomes below $400,000 won't see any tax increase, whereas, those whose income exceeds $1 million would be taxed at ordinary income rates.

Please note this is a general summary based on President Biden's proposed tax plan as currently available on his website, and different news publications like ABC News, USA Today, and The Washington Post. In order to become law, all of these changes would need approval by both U.S. House and the U.S. Senate. Please check back soon for more updates.

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Do you need to set up a tax plan for your company? You can contact us for more.

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