



Comparing the Trump and Biden Tax Plans

In these uncertain times, it's hard to predict what policy initiatives the winner of the 2020 presidential election is likely to pursue. However, given the backdrop of the COVID-19 pandemic, the subsequent economic devastation and historic fiscal / monetary stimulus response, it seems certain that tax policy will take center stage. It's never too early to prepare for potential tax changes.

Below is a summary of the key tax law changes each Presidential candidate is suggesting:

Raising Tax Rates on Top Earners and Employers

- Under the Tax Cuts and Job Act (TCJA) enacted in 2017, individual rates range from 10% to 37%. Biden would return the top rate to the pre-TCJA level of 39.6%.
- Biden seeks to eliminate the Social Security tax exemption for wages and self-employment earnings above \$400,000. The 12.4% Social Security tax is split evenly between the employer and employee, resulting in higher payroll taxes for high-income wage earners and their employers. Coupled with the income tax and Medicare surcharge this would bring the top rate for employment income to 48.4% before state and local taxes.
- The TCJA lowered the corporate tax rate to a flat 21%, down from a top tax rate of 35%. Biden's plan would increase the corporate tax rate to 28% and impose a minimum book income tax.

Investment Income

- Capital gains are subject to a tax rate ranging from 0% to 20%, depending on the taxpayer's income. Under the Biden plan, capital gains would be taxed at ordinary income rates for taxpayers with income over \$1 million and would also be subject to the 3.8% net investment income tax as enacted as part of the Affordable Care Act. This impact would be significant for high-income investors as well as founder and entrepreneurs who may experience a liquidity event.

Estate and Gift Taxes

- Under present law, heirs receive an increased basis (or so-called "stepped-up basis") in inherited assets equal to the current fair market value (FMV) at the time of transfer. Biden's plan eliminates the step-up in basis for inherited assets.
- The TCJA increased the estate tax exemption threshold to its current level of \$11.58 million per individual. The Biden-Sanders Unity Task Force has recommended returning the estate tax regime to the "historical norm". This could mean restoring the exemption threshold to the 2009 level of \$3.5 million per individual and it could portend to an estate tax rate increase back to the 45% rate in effect in 2009.

Item	Present Law	Biden	Trump
Business	<ul style="list-style-type: none"> • 21% corporate rate • 20% pass-through deduction for QBI • Territorial style regime with BEAT, 10.5% GILTI rate 	<ul style="list-style-type: none"> • 28% corporate rate • Repeal 20% pass-through deduction for QBI for taxpayers >\$400K in income and for REIT dividends • Double GILTI rate • 15% minimum global book income tax • Repeal like-kind exchange deferral for real estate • 6.2% payroll tax increase on employee wages over \$400K (see below) 	<ul style="list-style-type: none"> • Make 20% pass-through deduction permanent
Payroll/Self-employment	<ul style="list-style-type: none"> • 6.2% on wages up to \$137,700 & 1.5% Medicare (both employer and employee) • 0.9% Medicare >\$250K MFJ/\$200K (employee only) 	<ul style="list-style-type: none"> • Impose 6.2% tax on wages >\$400K (both employer and employee), wages between \$137,700 and \$400,000 not taxed 	<ul style="list-style-type: none"> • Supports temporary payroll tax holiday as pandemic relief
Individual Income tax	<ul style="list-style-type: none"> • 37% maximum rate through 2025, reverts to 39.6% 	<ul style="list-style-type: none"> • 39.6% maximum rate 	<ul style="list-style-type: none"> • Make 37% rate and other TCJA changes permanent
Investment Income	<ul style="list-style-type: none"> • 20% maximum capital gains rate • 3.8% net investment income tax 	<ul style="list-style-type: none"> • No preferential rate for capital gains for taxpayers over a \$1 million income threshold • No financial transactions tax 	<ul style="list-style-type: none"> • Supports indexing capital gains for inflation, further reducing the rate from the current 20% maximum
Estate & Gift Tax	<ul style="list-style-type: none"> • Top rate of 40% with exemption of \$11.58 million through 2025, reverts to \$5 million (indexed from 2011) 	<ul style="list-style-type: none"> • Return to "historical norm", perhaps this means restoring the \$3.5 million exemption • Eliminate the step-up in basis for inherited assets 	<ul style="list-style-type: none"> • Make TCJA changes permanent
Wealth tax	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • No proposal 	<ul style="list-style-type: none"> • No proposal

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