

President Biden's Tax Proposal

Unveiling the Details

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AS WE APPROACH ANOTHER NATIONAL ELECTION, evaluating the candidates involves examining their proposals, among the most popular being those that impact taxes. President Joe Biden, the incumbent, has issued a detailed proposal, including the following provisions:

Marginal income tax rate increase

Currently, the top marginal income tax rate is 37 percent. A new top marginal tax rate of 39.6 percent would apply to taxable income greater than \$450,000 for married filing jointly and \$400,000 for unmarried individuals.

Ban backdoor Roth

Currently, high earners (\$161,000 for single; \$240,000 for married filing jointly) need to use a "backdoor" Roth strategy to bypass income limits and contribute to a Roth IRA or convert a traditional IRA to a Roth. The proposal would prohibit rollovers into a Roth account for earners of \$400,000 or more in income.

Ban mega-backdoor rollover to a Roth IRA

Currently, if allowed, you can contribute after-tax money beyond the \$23,000 employee limit for 2024 and roll money into a Roth IRA. The proposal would ban rollover to a Roth IRA from an employer-sponsored eligible retirement plan that is not a designated Roth account.

Capital gains tax reform

Long-term capital gains (LTCG) and qualified dividends (QD) are taxed based on the income, with 20 percent being the highest rate. The new law would tax LTCG and QD of taxpayers with taxable income of more than \$1 million at ordinary rates, with 37 percent being the highest rate.

Net investment income tax and Medicare tax

Individuals with MAGI (modified adjusted gross income) greater \$200,000 for a single taxpayer and \$250,000 for a married taxpayer are subject to a 3.8 percent tax on NII



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Taxpayers and investors must stay informed of proposed tax changes and adapt their financial strategies accordingly.



(interest, dividends, rents) and additional 0.9 percent Medicare tax. The law will increase NIIT and Medicare tax by 1.2 percent for taxpayers with more than \$400,000 in earnings.

NIIT to pass-through business income

The NIIT doesn't currently apply to active pass-through income. The proposal would expand the NIIT rules to ensure that all pass-through business income (S Corp/partnerships) would be subject to the 3.8 percent NIIT for high-income taxpayers.

Deferral of gain (§1031) repeal

Currently, owners of real property can defer gains by using a like-kind exchange. The proposal would allow the deferral of gain up to \$500,000 for each taxpayer each year; gains in excess of \$500,000 in a year would be recognized.

Wash sale

A section (§1091) of the Internal Revenue Code disallows taking a loss for tax purposes from a sale of stock if the same or substantially identical stock is purchased within 30 days before or after the sale. The wash sale rules would be amended to add digital assets to the list of assets.

Tax credits

Currently, there are few tax benefits for homeowners aside from mortgage interest (itemize) and CG exclusion. The proposal would give a \$10,000 tax credit for first time home buyers and home sellers. The credit would not apply if your income is greater than \$200,000.

Debt forgiveness

Loan amounts that are forgiven are considered income to the borrower. The American Rescue Plan (ARP) provides an exception to forgiven debt incurred after 2020 and before 2026. The proposal would make the ARP exclusion permanent for certain student loan amounts.

Corporate income tax rate increase

Currently the corporate income rate is a flat tax of 21 percent. The proposal would increase the tax to 28 percent. This could result in higher prices for consumers as corporations attempt to maintain their margins.

Failure to file as a felony

Previously, if you willfully failed to file a tax return you would be guilty of a misdemeanor. Individuals or businesses failing to file a tax return in three of five years with the unpaid taxes amounting to more than \$250,000 over the five-year period would be subject to a felony.

A few other changes in the proposal:

- Increase the excise tax rate by 3 percent for repurchase of corporate stock
- Provide tax incentives for locating jobs in the US and remove tax deductions for shipping jobs overseas.
- Place an excise tax on mining digital asset activities.



As the proposal undergoes deliberation and potential revisions, it's imperative for taxpayers and investors to stay informed and adapt their financial strategies accordingly. Regardless of the final outcome, understanding the potential impact of these proposed changes is essential for prudent financial planning in the years ahead. Consulting with a qualified financial advisor to navigate these potential changes and make informed decisions remains paramount, ensuring that individuals can effectively manage their financial goals and secure their financial future.

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