

2021 INCOME TAX PLANNING FOR THE BIDEN ADMINISTRATION

WHAT DO WE KNOW?

The Biden administration has proposed multiple trillions of dollars in additional spending

Proposed ordinary income tax rate increase for taxpayers with income > \$400,000

Proposed changes to long-term capital gain tax rates for taxpayers with income > \$1,000,000. Proposed rates higher than income taxes

Proposed limit to itemized deductions to 28% of income

Proposed replacement of Retirement account contribution deduction with a 26% credit.

KEY PLANNING THOUGHTS

- If there was ever a time to get your financial house in order, now is the time. With multiple proposals for tax increases to potentially at the end of the year. Now is an important time to take action.
- Roth conversions are a strategy to accelerate income, however there are now no options to undo conversions due to the elimination of Roth recharacterizations.
- Opportunities to harvest ordinary income and capital gains should be considered based on your individual situation to act as 'insurance' against tax increases.
- High-income taxpayers with income above the 28% tax bracket who already itemize may benefit from accelerated additional itemized deductions before year-end 2021 as the proposed 28% cap would limit future itemized deductions.



KEY PROPOSALS IN BIDEN'S PLATFORM

Ordinary income

- Proposed top tax bracket of 39.6%, same as before the Tax Cuts & Jobs Act (TCJA)
- Proposed ordinary income tax rate increase for taxpayers with income > \$400,000
- Elimination of the Qualified Business Income (QBI) deduction for those making over \$400,000/yr

Itemized Deductions

- Proposed cap on the limit for deductions. This would limit the maximum benefit to the 28% tax bracket
- The cap would limit the value of itemized deductions. (i.e. if taxpayers were in the 32%, 35% or 39.6% bracket, they would only receive a 28% break on their itemized deductions)

Capital Gains

- Proposed change to long-term capital gains rate for taxpayers with income of > \$1,000,000. The capital gains rate would move from 20% to 39.6% + 3.8% for the Net Investment Income Tax + state taxes.
- The cap would limit the value of itemized deductions. (i.e. if taxpayers were in the 32%, 35% or 39.6% bracket, they would only receive a 28% break on their itemized deductions)
- Economic Opportunity Zone incentives will still be available and allow deferring capital gains taxes until 2026.

Planning

- Higher taxes for the "wealthy" are just around the corner. Work with you CPA and financial planner to set yourself up for financial success.

"According to tax returns filed through the first 30 weeks of year, 9.6% of filers chose to itemize their deductions on their 2019 tax returns."
- Tax Foundation