Friday, September 17, 2021

September Tax Proposals

This two-minute read breaks down the Biden Administration's mid-September announcement regarding a number of tax proposals intended to fund new government investments, such as infrastructure, education, and family programs. Between monitoring a very fluid situation and assessing what might be next for individual and corporate taxes, CAPTRUST is reporting on what clients need to know about the latest announcements.

On Monday, the House Ways and Means Committee announced a number of tax proposals intended to fund new government investments, such as infrastructure, education, and family programs. While there is still much work to be done before a final tax bill makes it to the president's desk, CAPTRUST has prepared the following summary of the proposals.

While a final bill might become law later this year, experts agree there is a chance the proposals will never come to fruition. Before you make any changes to your personal financial situation, it's a good idea to get in touch with your financial advisor and review potential impacts to your financial planning goals.

Here are a few of the top items we are watching closely. All have differing probabilities of being enacted.

Individual Taxes. Some of the most notable changes for high-income individuals include:

- Raising the top marginal income tax rate from 37 percent to 39.6 percent starting with taxable income over $400,000 for single filers and $450,000 taxable income for those married filing jointly;
- Increasing the top capital gains rate from 20 percent to 25 percent and expanding the net investment income tax (NIIT) to capture more income;
- A 3 percent surcharge on individual adjusted gross income (AGI) above $5 million; and

- Treating grantor trusts like taxpayers distinct from the grantor for income tax purposes.

Retirement Savings. One restriction prohibits high earners in the new 39.6 percent bracket from making contributions to a traditional or Roth individual retirement account (IRA) if the total value of an individual's IRA and defined contribution retirement accounts exceeds $10 million as of the end of the prior taxable year.

The proposal would create new required minimum distributions (RMDs) for individuals in the 39.6 percent tax bracket whose combined qualified accounts exceed $10 million. In addition, the bill proposes to eliminate conversions from after-tax to Roth accounts for those in the 39.6 percent tax bracket by 2031.

Other proposed changes impacting retirement savings include:

- Prohibiting IRA private placement investments conditioned on accredited investor status;
- Expanding the statute of limitations on IRA valuation misreporting and prohibited transactions; and
- Prohibiting IRA investments in entities in which the IRA owner has a substantial interest.

Estate and Gift Tax Exemption. The latest version of the bill would revert the thresholds back to 2010 estate and gift tax exemption levels that were increased by the Tax Cuts and Jobs Act (TCJA) and set to expire at the end of 2025. These levels would be indexed for inflation and effective as of the end of 2021. This change would basically cut in half the current $11.7 million exemption per individual.

Corporate Taxes. Corporate and international tax reforms could also be enacted, with an increase to the top corporate tax rate for businesses with income amounts of more than $5 million. This rate was previously lowered from 35 percent to 21 percent in 2017 as part of the TCJA. If enacted, the bill will increase the top corporate tax rate to 26.5 percent.

Other potential corporate tax legislation changes include:

- Accelerating higher taxes on corporate executive compensation;
- Permitting certain S-corps organized prior to 5.13.1996 to reorganize as domestic partnerships without triggering tax in the two-year period beginning on 12.31.2021; and
- Amending Section 1202 qualified small business stock exclusion rates for capital gains to provide that the special 75 and 100 percent exclusion rates for gains realized from certain qualified small business stock will not apply to taxpayers with AGIs equal to or exceeding $400,000. The baseline 50 percent exclusion remains available for all taxpayers.

CAPTRUST will continue to monitor deliberations in Congress and the timelines for effective changes from the final bill passed. Please don't hesitate to reach out to your advisor to discuss the effect of these changes on your personal financial position.

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