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Unpacking the Biden Administration's tax proposals

The Biden Administration proposed a series of tax changes to address the pandemic's mounting economic pressure and the growing federal deficit. What could these changes mean for you?

In many ways, it's too soon to tell – all of these proposals still need to make their way through both houses of Congress and be signed by President Biden before they become law. Let's look at some of the key changes on the table.

No tax increase for individuals making less than $400K

Perhaps the central touchstone of Biden's tax plan is that if you are making less than $400,000 per year, your taxes will not be raised.

However, if you're an individual earning more than $400,000 per year, Biden's plan would roll back a Trump Administration tax cut and raise the marginal tax rate from 37 percent (the current level) to 39.6 percent (the pre-Tax Cuts and Jobs Act level).

Retirement contribution changes

Under Biden's plan, instead of deducting contributions you make to traditional individual retirement accounts (IRAs) and 401(k)s from your taxes, you would receive a 26 percent refundable tax credit for each $1 you contributed. The credit would be deposited into your retirement account as a matching contribution.

Elimination of step-up in basis

Today, when a person passes away, the value of assets included in their estate get a step-up in basis to the fair market value of the asset at the time of death. Under Biden's proposal, the step-up in basis would be eliminated. To better understand what this means, let's look at a hypothetical example:

You bought stock for $1,000, your basis, and the stock is worth $10,000 when you die. If you left the stock to your child under today's rules, your child's basis would be increased to the fair market value of the asset at the time of your death ($10,000) so they wouldn't owe any capital gains taxes if they sold the stock. However, under Biden's proposal, your child's basis would not be stepped up – it would be the same as yours. So if your child sold the stock you left them, their basis would be $1,000 (the amount you originally paid) and they would owe capital gains taxes on $9,000.

Personal income tax credits

Biden's tax plan also includes proposals to:

- Reestablish the First-Time Homebuyers' Tax Credit, which would provide up to $15,000 to first-time homebuyers.
- Introduce a $5,000 tax credit to informal caregivers (including family members and other loved ones) who provide long-term care

Tax credits for families with children

Biden's coronavirus stimulus package, the American Rescue Plan, proposes expanding tax credits for families with children:

- The Child Tax Credit would be increased, eligibility would be expanded to include 17-year-olds and the credit would be fully refundable in 2021. The credit would be $3,000 per child for children ages 6 to 17 and $3,600 for children under 6.
- The Child and Dependent Care Tax Credit (available to kids under age 13) would be expanded to cover up to half of eligible childcare expenses, capping out at $4,000 for one child or $8,000 for two or more. For families making less than $125,000, the credit would be fully refundable, while families making between $125,000 and $400,000 would receive a partial credit.

Ultimately, there's a lot to unpack in the Biden tax proposals – and much that is still unknown. Consult your tax professional for advice and consider working with a financial professional to discover tax-efficient retirement strategies.

Sources:

A Tale of Two Tax Policies: Trump Rewards Wealth, Biden Rewards Work | Joe Biden for President: Official Campaign Website

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Biden's Huge Pandemic Relief Plan Would Cut Taxes for Low- and Moderate-Income Households, Tax Policy Center.

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