

White House previews tax hikes on high-income individuals in ‘American Families Plan’

President Biden will call for increasing the top individual income tax rate and the capital gains tax rate, taxing carried interests as ordinary income, eliminating stepped-up basis for certain inherited assets, and other tax hikes focused on upper-income taxpayers to help offset the cost of his proposed \$1.8 trillion initiative known as the “American Families Plan,” according to a White House fact sheet released on April 28.

URL: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/>

At a high level, the plan, which the president will formally announce in a speech before a joint session of Congress the evening of April 28, will include new spending on what the administration has called “human infrastructure” priorities such as paid family and medical leave, universal child care, access to pre-kindergarten education and free community college, and nutrition assistance programs, along with tax relief targeted primarily at lower- and middle-income taxpayers.

Revenue provisions at a glance

According to the administration’s fact sheet, which was released ahead of the president’s speech, the revenue portion of the American Families Plan includes proposals drawn largely from his campaign platform that would:

- Increase the top individual income tax rate to 39.6 percent for taxpayers “within the top one percent.” The plan does not cite specific income thresholds that would apply for individual filers and married taxpayers filing jointly.
- Tax income from long-term capital gains and certain dividends at ordinary rates for “households making over \$1 million.” The fact sheet does not specify if the threshold would apply to taxable ordinary income or investment income.
- “Permanently eliminate the carried interest loophole.”
- Repeal the step-up in basis of inherited assets at death for gains greater than \$1 million (\$2.5 million per couple when combined with current-law exemptions for real estate). Special rules – which are not described on the fact sheet – would apply to protect family-owned businesses and farms that are passed on to “heirs who continue to run the business.” Notably, the plan does not appear to include a campaign proposal to return the estate tax to the parameters in effect for 2009 (that is, a top rate of 45 percent and an exemption of \$3.5 million per taxpayer).
- Presumably end the like-kind exchange rules for gains on real property greater than \$500,000.
- Permanently extend the excess business loss limitation, which was recently extended through 2026 under the American Rescue Plan Act of 2021 (P.L. 117-2).
- Ensure that the 3.8 percent Medicare tax on net investment income enacted as part of the Patient Protection and Affordable Care Act is applied “consistently to those making over \$400,000.” The fact sheet does not explain exactly how this proposal would operate.

The plan does not appear to include other notable revenue-raising proposals from Biden’s presidential campaign, such as capping the value of itemized deductions for upper-income taxpayers, reinstating the so-called “PEP” and “Pease” limitations on itemized deductions, or eliminating the 20 percent deduction for passthrough income under section 199A.

Stricter reporting and enforcement requirements: According to the fact sheet, the administration believes it can narrow the “tax gap” – the difference between the amount of tax owed to the government and the amount paid – by \$700 billion over 10 years through a combination of stricter IRS enforcement of existing tax laws and more stringent information reporting requirements.

To that end, the president proposes to boost the Internal Revenue Service’s budget to expand its audits of high-income individual taxpayers and corporations. (The exact amount of the proposed budget bump is not specified on the fact sheet, but press reports citing comments from administration officials suggest that it would be \$80 billion over 10 years.) In addition, the plan would require financial institutions to “report information on account flows so that earnings from investment and business activity are subject to reporting more like wages already are.”

Enhanced family tax credits

On the incentive side, the plan calls for extending certain enhancements to several family-focused tax relief provisions that the president proposed on the campaign trail and were put in place – for 2021 only – under the American Rescue Plan Act of 2021. These proposals would:

- Extend the temporary increases in the child tax credit amount through 2025. Full refundability of the credit would be extended permanently.
- Permanently extend the temporary increases in the amount of the child and dependent care tax credit.
- Permanently extend enhancements to the earned income tax credit for childless workers.
- Permanently extend taxpayer-friendly changes to the Affordable Care Act’s health insurance premium tax credit.

For additional details on the temporary enhancements to these credits enacted in the American Rescue Plan, see *Tax News & Views*, Vol. 22, No. 11, Mar. 10, 2021.

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210310_1.html

To reduce fraud and improper payments under these tax credit programs – something the administration says is attributable largely to unscrupulous practitioners – the plan also proposes to give the IRS authority to regulate paid tax return preparers.

More to come

Look for additional details on the president’s proposals in our upcoming week-in-review edition of *Tax News & Views*.

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