

Proposed Tax Changes Are in Play - How Can You Prepare?

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While we have all been focusing on the various pandemic-related relief programs for businesses and individuals, it is now time to prepare for possible changes to the tax code.

Planning and preparation for these changes is challenging due to the uncertainty around which provisions will change, but the more knowledgeable you are about the possibilities, the more you can do to plan. The Biden tax proposals may impact

individuals, families, and businesses.

Below is a brief overview of some of the more important proposals, which are focused on high-income taxpayers.

- An **end to stepped-up tax basis for estates with a \$1 million exemption**, keeping the existing exemption for the sale of personal residences. This would end the practice of “stepping-up” the basis for gains in excess of \$1 million (\$2.5 million per couple when combined with existing real estate exemptions) and making sure the gains are taxed if the property is not donated to charity.
- An **increase in the top individual income tax rate** back up to 39.6 percent from 37%.
- For households making more than \$1 million, **the tax rate on long-term capital gains and dividends could also increase** to 39.6 percent from 20 percent (eliminating the tax break for carried interest).
- An **end to tax deferral for section 1031 like-kind exchanges for gains in excess of \$500,000**, which allows real estate investors to defer income tax when they meet the requirements for the exchange of property.
- A permanent extension to the current limitation in place that restricts the immediate use of large, excess business losses, which primarily benefits those making over \$1 million. (Currently, trade or business losses that are limited to \$250,000/\$500,000 can be utilized against other income such as wages and portfolio income. This provision is set to expire after 2025.)

What might happen?

There is currently not a lot of clarity or direction related to these proposals. They may or may not move forward or may be significantly modified. Furthermore, changes to the estate tax and the addition of the so-called wealth tax are not even included in the current proposals, despite the noise around each issue.

When might it happen?

There are three choices for when new laws can be implemented – retroactively, when the law is signed, or prospectively which would most likely be January 1, 2022.

We'll be monitoring any progress with these tax proposals and will keep you posted. Odds are that something will occur in a timeframe that should make them a top priority for you to address. Specific planning for the changes is challenging until more is known, but you may want to consider how the proposals may impact any major transactions you are considering. Please contact your Anchin Relationship Partner to discuss how the above may apply to you, and work with us to adjust your tax strategy accordingly.