2021 Proposed Tax Changes Summary

"American Jobs Plan" - proposed to begin 1/1/2022

What is Impacted? Corporate tax rates in the U.S.

What May Change?

- Raise the Corporate Tax Rate from 21% to 28%
- Close loopholes and impose a 15% min. tax on large corporations
- Increase taxes on foreign source income
- Reduce credits available to US income tax due for foreign paid taxes
- Eliminate or reduce tax preferences for fossil fuels
- Increase taxes on controlled foreign corporations (CFC)

Solution

Corporate tax rates and corporate taxable income are expected to increase. Funding a non-qualified plan with COLI can significantly reduce taxable income and provide an executive benefit with no impact to corporate P&L.

Step-Up in Basis[1]

What Is Impacted? Capital gains and tax breaks for "dynasty trusts"

What May Change?

- Estimates $113B will be raised by scrapping tax break for heirs, whereby, they no longer will benefit from current tax laws which "step up" the cost basis of assets to market value enabling them to avoid taxable gain upon death.
- $11.7M in "dynasty trusts" under generation skipping tax (GST) current laws may be subject to a 50-year cap.
- Tax would apply to returns on assets held more than a year.
- Propose higher capital gains taxes for estates with more than $1M in unrealized capital gains.
- Top federal capital-gains tax rate to be 43.4% – using the highest marginal tax bracket plus the net investment income tax rate imposed under President Obama.

Solution

Utilize life insurance as an asset class by repositioning assets from brokerage accounts into a life insurance structure that will convert these "Capital Gains" into an income tax-free benefit.

American Families Plan Proposal (AFP)[2]

Who is Impacted? Individual income tax on those that earn more than $400,000+ with an additional impact for those that earn $1M+ annually

What Could Change?

- Biden would like wages of more than $400,000 to be subject to additional Social Security payroll taxes, which are currently capped at $142,800.
- Increase the top marginal income tax rate of 39.6% reverting them to Bush-era rates. Households with $400,000 or more would be affected.
- Gains on unrealized appreciation would be taxed when transferred to a trust upon death.
- Increased ordinary tax and self employment tax treatment for S corps and partnerships in place of lower capital gains rates
- Earners in excess of $1M annually would have to pay higher taxes on long-term capital gains and qualified dividends at 43.4% using the highest marginal tax bracket plus the net investment income tax rate imposed under President Obama.

Solution

Increase one's deferral amount into a Deferred Compensation Plan (DCP) to limit current year wages to below $400,000. Dollars can also be allocated to Private Placement Life Insurance (PPLI) structure to eliminate taxes on investment gains. Contact MezrahConsulting to set up a DCP or PPLI.

[1] https://www.msn.com/en-us/money/markets/biden-capital-gains-tax-plan-would-raise-113-billion-if-step-up-in-basis-is-killed-says-wharton/ar-BB1g709j?ocid=uxbndlbing

[2] https://www.kiplinger.com/taxes/602708/ways-biden-plans-to-tax-the-rich-and-maybe-some-not-so-rich-people

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