HMV

The American Families Plan

On April 28, 2021, President Biden introduced the American Families Plan, a $1.8 trillion spending plan that includes tax increases on high-income taxpayers to help offset its costs. This document covers potential changes to the tax law that, if enacted, may affect you and your family.

Increases Top Federal Tax Rate

Overall, President Biden has indicated that nobody earning $400,000 or less would see any increase in taxes, and therefore the proposed tax changes are focused on high-income taxpayers.

For ordinary income, the American Families Plan would increase the top federal tax rate from 37% to 39.6%. It is unknown whether or not there would be any changes to any of the tax bracket thresholds.

Expands the 3.8% Medicare Tax

High-income taxpayers generally pay a 3.8% Medicare tax on self-employment income and Net Investment Income. It also applies to wages but is shared by the employer. Because the application of the tax is inconsistent across taxpayers and types of income, the American Families Plan would call for applying the tax to all income for those making over $400,000.

Increases the Long-Term Capital Gains Rate

Gains on the sale of assets held for more than one year are taxed at the long-term capital gains tax rate, which currently tops out at 20%. The American Families Plan proposes to increase the top rate from 20% to 39.6% for households with earnings of $1 million or more. When combined with the 3.8% surtax on Net Investment Income, total federal tax on long-term capital gains would reach 43.4%.

Limits 1031 Exchanges

Real estate owners currently benefit from Section 1031 of the IRS code that allows an owner to defer taxes on the gain from the sale of a property by purchasing a similar property shortly after the sale. The American Families Plan seeks to eliminate the ability for owners to apply the 1031 exchange deferral when the gain on a property sale exceeds $500,000.

Limits the Step-up in Basis

Under current law, heirs to an estate benefit from a step-up in basis on certain assets. Basically, the cost of an asset is readjusted to the current fair market value and enables heirs to avoid paying taxes on the appreciation of the asset. The American Families Plan proposes to eliminate the step-up in basis on gains that exceed $1 million, or $2.5 million per couple when combined with existing real estate exemptions. Donations to charity would not be subject to the rule, nor would family-owned businesses and farms that are passed to heirs who will continue to run those businesses.

Closes the "Carried Interest Loophole"

The American Families Plan seeks to close the "carried interest loophole" that allows taxpayers who receive partnership interests in exchange for services to be taxed at the long-term capital gains rate instead of ordinary income rate on those proceeds. President Biden called out hedge fund managers who benefit most from the current tax treatment.

Limits Excess Business Losses

The 2017 Tax Cuts and Jobs Act limited the amount of excess business losses that a taxpayer may deduct to $250,000 for single filers and $500,000 for married filing jointly. These limits were set to expire on December 31, 2026, but the American Families Plan seeks to make these limits permanent.

Increases IRS Enforcement

The American Families Plan, along with the American Jobs Plan, seeks to increase IRS enforcement on wealthy taxpayers and corporations. For instance, the proposals direct an additional $80 billion to the IRS over the next decade to improve technology and increase the number of IRS auditors.

Final Thoughts

The American Families Plan would of course need to be passed by Congress in order to become law. There will certainly be negotiations and changes to the plan through the legislative process, and it is unknown what may be enacted into law. If you would like to discuss tax planning for your unique situation, please feel free to call our office.

About Heard, McElroy & Vestal

In 1946, S. Berton Heard, Charles McElroy and Charles Vestal founded Heard, McElroy & Vestal, LLC in Shreveport, Louisiana. Together, this trio of professionals established the firm as a pillar of trust, integrity and competence, with the mission to create solutions and provide opportunities for our clients, our people, and our communities. HMV is one of the largest public accounting and consulting firms in Northwest Louisiana, servicing our clients throughout the states of Louisiana, Arkansas, Texas, Mississippi, Oklahoma and Tennessee from offices in Shreveport and Monroe. Our firm is comprised of over one hundred (100) employees: Partners, Of Counsel Partners, Senior Managers, Managers, additional Professional Staff and Administrative Staff. Our Professional Staff includes more than fifty (50) certified public accountants who obtain additional certifications which are Accredited in Business Valuation (ABV), Certified Fraud Examiners (CFE), Not-for-Profit Certificate holders, Certified Valuation Analysts (CVA), Personal Financial Specialists (PFS), and Certified Mineral Managers (CMM). Our team of professionals brings together many years and diversification of experience, providing a network of knowledge and resources and allowing for industry and niche specialization. Not one CPA can offer the range and quality of services a firm of our size is able to provide, while remaining small enough to deliver personalized service and attention to our clients with consistency on engagements. HMV's strategic associations include Aliign Mineral Management, LLC, Business Valuation Consultants, LLC and HMV Wealth Advisors, LLC.

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