Fahn Kanne Grant Thornton

Analysis of the Tax Plan of President - elect Joe Biden

Ariel Katz, CPA

Head of US Tax Compliance & Advisory

December 7, 2020

Summary of Biden’s Tax Proposal

Plan Highlights	Repeal the Tax Cuts and Jobs Act (2017) components for high-income filers
	Increase the corporate income tax to 28%
	Establish a corporate minimum tax on book income
	Double the tax rate on GILTI and impose it country-by-country

A starting point is the president - elect’s stated goal of rescinding 2017 tax breaks for high earners, which has come to mean greater than $400,000.

Details of Biden Tax Plan

Biden's plan includes the following individual income tax, corporate tax, and estate and gift tax changes:

<u>Individuals</u>

- Reverts the top individual income tax rate for taxable incomes above $400,000 from 37 percent to 39.6 percent.
- Taxes long-term capital gains and qualified dividends at the tax rate of 39.6 percent on income above $1 million.
- Caps the tax benefit of itemized deductions to 28 percent of value for those earning more than $400,000.
- Phases out the qualified business income deduction (Section 199A) for filers with taxable income above $400,000.

Details of Biden Tax Plan

<u>Business</u>

- the corporate income tax rate would rise from 21 percent to 28 percent.
- Creates a minimum tax on corporations with book profits of $100 million or higher. 15 percent minimum tax while still allowing for net operating loss (NOL) and foreign tax credits.
- Doubles the tax rate on Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries of US firms from 10.5 percent to 21 percent.

Details of Biden Tax Plan

<u>Business</u>

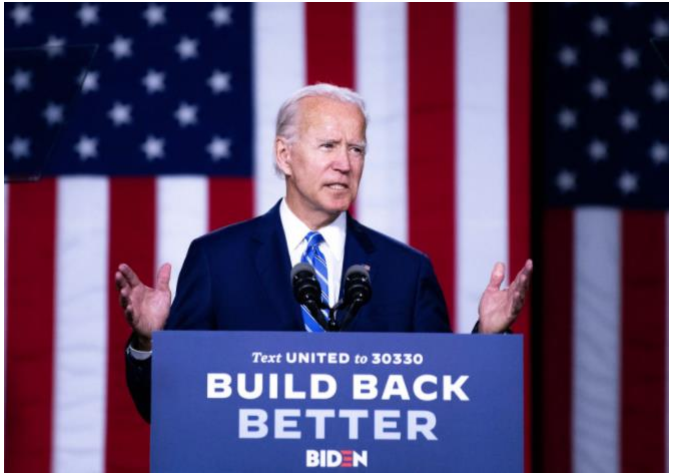
- Eliminate GILTI's exemption for deemed returns of 10 percent of qualified business asset investment (QBAI).
- Expands the New Markets Tax Credit and makes it permanent.
- Expands several renewable-energy-related tax credits, including tax credits for carbon capture, use, and storage, and a restoration of the Energy Investment Tax Credit (ITC).

The Biden plan would also end tax subsidies for fossil fuels.

Details of Biden Tax Plan

Estates

- The Biden campaign proposal to expand the estate and gift tax by reducing the exemption amount to $3.5 million and increasing the top rate for the estate tax to 45 percent.
- Eliminates step-up in basis for capital gains taxation.



Grant Thornton | An instinct for growth™

Analysis

- According to our study, under Biden’s plan the nation’s top 1% of earners would see their annual after-tax income decrease by 11.3%;
- the next 4% of top earners would see after-tax income drop by 1.3%.
- Under Trump, by leaving the tax rates as is, the top 20% of earners would see a 2.4% increase in after-tax income, as brackets were widened for 2021.

Conclusion

- Based on the tax plan released before the election, taxes would be raised on the labor income, investment income, and business income of those earning over $400,00.
- Among other changes, the plan repeals the 2017 Tax Reform's income tax cuts for taxpayers with taxable income above $400,000, and increases the corporate income tax rate to 28 percent.
- Typically, tax laws take effect in the calendar year after they are passed, so, if Biden is elected, it's possible that new rules could be enacted in 2022-though there certainly will be some adjustments made from here.
- The next 31 days [the number of days left in 2020] will certainly be an adventure for most of us because the prospect of significant tax changes on the horizon remains unclear for now,
- **Whatever lies ahead, it's a good time to think about future taxes.**

Thank you!