Planning for Proposed Tax Changes | Video Transcript

Beth Germann, Tax Manager
Michael Caldwell, Tax Professional

Ian McManis:

Hi, and welcome to Barnes Dennig Ask the Experts. I'm Ian McManis, Marketing Manager with Barnes Dennig. And today, we're talking with Beth Germann and Michael Caldwell about the proposed tax changes under the Biden administration. We've got a lot to cover. So let's go ahead and get started. Thank you both for joining me today. Michael, I'll go ahead and turn it over to you now.

Michael Caldwell:

Thanks, Ian. Beth, what are some of the goals of the current tax proposals?

Beth Germann:

Sure. What the Biden administration is looking to do is increase tax revenue. This revenue is used to fund all government programs, including maybe investment in infrastructure that's much needed. Regardless of whether these changes as proposed go through, we can definitely expect tax changes on the horizon. The initial Trump proposals that happened in 2017 are set to expire in 2026. So, whether or not these go through as proposed, we can expect changes on the horizon.

Michael Caldwell:

Right. Now, for individual income taxpayers, what can they expect to see changed?

Beth Germann:

Overall, the proposals show an increase in revenue. So, for individual income taxpayers, one thing we see is marginal income tax rates changing from the top rate of 37% now to likely 39.6%. In addition, the tax brackets will be slightly adjusted. That is, the marginal rate that people are taxed at will come at lower incomes.

Beth Germann:

One of the unintended consequences is for married taxpayers where both spouses might be working and earning significant salaries. For them, they might actually end up paying more in tax as a married couple than they would if they filed as single taxpayers, which is not really the way the tax code is supposed to work. We'll see how these things get ironed out.

Michael Caldwell:

All right. Now, many taxpayers are taxed on their capital gains. What kind of changes can we see with capital gains?

Beth Germann:

Capital gains taxes have shifted many times over the past 100 years. For the past 20, generally long-term capital gains have been taxed at 15% or 20% depending on your marginal rate. What we're expecting is that individuals with income of a million dollars or more will be taxed at ordinary income tax rates on their capital gains instead of those preferential rates that we have seen previously. So for them, there's going to be some consideration for how they want to manage how gains are realized.

Michael Caldwell:

Right. Now, what about wealth transfers? Are there any ways to avoid realizing gains on property?

Beth Germann:

So, it used to be that you could transfer some of your unrealized capital gains through gift or through leaving in your estate. And a lot of that unrealized capital gain would not be realized. These transfers of property are likely going to be taxed on the unrealized portion of the capital gain at transfer. So, if those gains are, again, greater than that million dollars, likely there'll be taxed at the ordinary income tax rate plus the 3.8% net investment income tax.

Michael Caldwell:

Now, you've just mentioned it there - estate tax planning. What kind of changes can we see to estate tax planning?

Beth Germann:

There're a few changes that are in the proposal. First, there is a discussion of the elimination and step-up in basis on appreciated assets, which has long been a way of managing your estate and leaving your appreciated assets. There might be a shift towards different uses of those appreciated assets, maybe through charitable giving. Estate exemption, that's definitely going down. Currently, it's at $11 million. What we're expecting that to be is reduced to $3.5 million. So it's reasonable to expect a shift between estate tax planning to income tax planning because with these proposals, the benefit of leaving appreciated property in your estate is no longer a viable strategy.

Michael Caldwell:

Now, with all these potential proposals and potential changes, how can taxpayers plan today for these upcoming changes?

Beth Germann:

That's a really good question. First and foremost, would always be having an internal discussion about what your real plans and goals are going forward. Because really when you look at these proposals, how they're written is not necessarily going to be what will be presented in final form. So what's good is to have an idea of what you want. So that way, when you can talk to your advisor, you're not starting at zero when these regulations come out as final.

Michael Caldwell:

Beth, that's all the questions I have for you today. It was great talking with you. Let me hand it back over to Ian.

Beth Germann:

Thanks, Michael.

Ian McManis:

Great. Thank you both for being with us today and for sharing your insights. If you'd like more information or would like to set up a conversation, you can visit the Barnes Dennig website. Otherwise, we'll see you next time on Ask the Experts.