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## Compare and Contrast: How the Republican and Democratic Tax Plans Differ

**With the presidential election fast approaching, many people are paying closer attention to each candidate's positions on such issues as the COVID-19 pandemic, health care, the environment, and taxes.**

**Among their many differences, President Donald Trump and former Vice President Joe Biden have widely divergent tax proposals. Their stances could have a major impact on the amount of taxes you'll owe in the future. Here's an overview of each candidate's tax proposals for both individuals and businesses.**

### Trump's Tax Proposals for Individuals

The GOP-backed Tax Cuts and Jobs Act (TCJA) was signed into law in December 2017. It included a number of temporary federal tax cuts and breaks for individuals and families for 2018 through 2025. President Trump has indicated support for preserving tax reforms under the TCJA — and possibly providing additional breaks for individuals and families.

The White House budget document for the government's 2021 fiscal year (which starts on October 1, 2020) indicates support for extending these TCJA individual tax provisions beyond 2025:

- The current federal income tax and estate tax regimes,
- The expanded child and dependent tax credits (along with continued disallowance of dependent exemptions),
- Increased standard deduction amounts (along with continued disallowance of personal exemptions),
- More favorable alternative minimum tax (AMT) rules, and
- Continued limitations on itemized deductions for home mortgage interest and state and local taxes (SALT).

In August, Trump promised that, if reelected, he'll find a way to forgive federal payroll taxes that were temporarily deferred for certain employees from September 1, 2020, through December 31, 2020, by an executive action issued on August 8.

He has also mentioned permanent federal payroll tax cuts, without providing details. However, forgiving or cutting payroll taxes would need to be part of a bill passed by Congress and that type of relief hasn't received much support from Democrats or Republicans.

Unless the Republicans regain control of the House and retain control of the Senate, any tax cut proposals are likely to face strong opposition from congressional Democrats. And if reelected, Trump is unlikely to sign any legislation that calls for major federal tax increases for individuals.

## Biden's Tax Proposals for Individuals

Vice President Joe Biden has expressed support for major federal tax law changes. The Biden plan he has shared would raise the top individual rate on ordinary income and net short-term capital gains back to 39.6%, the top rate that was in effect before the TCJA lowered it to 37% (for 2018 through 2025). Biden has also promised not to increase taxes for those who make under \$400,000. However, it's unclear whether that limit refers to taxable income, gross income or adjusted gross income—or whether it would apply equally to singles, heads of households and married joint-filing couples.

Other elements of Biden's plan that would affect individual taxpayers include:

**Limits on itemized deductions.** For upper-income individuals, Biden would reinstate the pre-TCJA rule that reduces total allowable itemized deductions above an applicable income threshold. Prior to the TCJA, allowable deductions were reduced by 3 cents for every dollar of income above a threshold. Regardless of who is elected president in 2020, the pre-TCJA limits will be reinstated in 2026 under current law, unless they're extended by Congress.

**Relief for certain homeowners.** Biden is calling for the elimination of the TCJA's \$10,000 cap on itemized SALT deductions, which mainly affects residents of high-tax states. His plan also would create a new refundable tax credit of up to \$15,000 for eligible first-time homebuyers that would be collected when a home is purchased, rather than later at tax-return filing time.

**Expanded breaks for eligible families.** Biden's plan includes a refundable federal tax credit of up to half of a family's costs to care for children under the age of 13 and dependents with disabilities. He would like the maximum credit to be \$8,000 for one qualifying child or \$16,000 for two or more qualifying children. Families earning between \$125,000 and \$400,000 could qualify for partial credits.

**Higher maximum rate on long-term capital gains.** Higher-income individuals would face higher capital gains taxes under the Biden plan. Net long-term gains (and presumably qualified dividends) collected by those with incomes above \$1 million would be taxed at the same 39.6% maximum rate that would be applied to ordinary income and net short-term capital gains. With the 3.8% net investment income tax (NIIT) add-on, the maximum effective rate on net long-term gains would be 43.4% (39.6% + 3.8%). That would be almost double the current maximum effective rate for high-income individuals.

**Elimination of basis step-up for inherited assets.** Under current law, the federal income tax basis of an inherited capital-gain asset is the stepped-up fair market value as of the deceased's date of death. So, if heirs sell inherited capital-gain assets, they owe federal capital gains tax only on the post-death appreciation, if any. The Biden plan would eliminate this tax-saving provision.

## Trump's Tax Proposals for Businesses

President Trump has indicated support for preserving business-focused tax reforms under the TCJA if he's elected for a second term. The TCJA includes many federal tax cuts and breaks for businesses, such as:

- A flat 21% tax rate for C corporations and personal service corporations,
- Permanently liberalizing the Section 179 first-year depreciation rules,
- Temporarily expanding first-year bonus depreciation deductions, and
- Repealing the AMT for C corporations.

Without providing specifics, Trump has said he would push for the following tax law changes if reelected:

- A new "Made in America" tax credit,
- A new tax credit for companies that bring back jobs from China,
- Enhanced tax breaks for certain industries, including pharmaceuticals and robotics, that bring manufacturing back to the United States, and
- Permanent federal payroll tax cuts. (However, Trump hasn't laid out a plan for how Social Security benefits would be paid if the withholding taxes that fund them are eliminated.)

Trump's tax proposals leave many unanswered questions. For example:

- What will happen with the 100% bonus depreciation deduction after 2022, when it's scheduled to begin being phased out under current tax law?
- Will Trump support the requirement for businesses to amortize research and development costs over five years, which is scheduled to start after 2022? (Under current law, research and development costs can be fully deducted when paid or incurred.)

Unless Republicans regain control of the House and retain control of the Senate, any tax cut proposals would likely face strong opposition from congressional Democrats. And if reelected, Trump is unlikely to sign legislation that calls for major federal business tax increases.

## Biden's Tax Proposals for Businesses

Former Vice President Biden's proposals include rollbacks or revisions of several TCJA provisions, which would be necessary to pay for his plan to rebuild the U.S. economy under the moniker of "Rebuilding America Through Investment."

Notably, the Biden plan would increase the corporate federal income tax rate from 21% to 28%. The change would raise an estimated \$1.1 trillion over 10 years. This rate is significantly lower than the 35% maximum effective rate for profitable corporations that was in place before the TCJA was enacted. But Biden's proposed tax rate would be a flat rate, not based on a graduated schedule.

In addition, if elected, Biden would support a new 15% minimum tax on corporations with at least \$100 million in annual income that pay little or no federal income tax under the "regular rules." An affected corporation would pay the greater of the regular federal income tax bill or 15% of reported book net income. This new tax would raise an estimated \$160 billion to \$320 billion over 10 years.

Biden also supports “green energy” tax changes. Specifically, if elected, Biden would support reinstating or expanding tax incentives intended to reduce carbon emissions, including:

- Deductions for emission-reducing investments in residential and commercial buildings, and
- Credits for buying electric vehicles that have been phased out under current law.

Biden would also like to eliminate federal income tax deductions for oil and gas drilling costs and depletion.

## Looking Ahead

More details regarding the two candidates’ tax plans may be revealed in the coming weeks. No matter who wins the presidency, we can help you implement planning strategies to keep your tax bill as low as possible. Please don’t hesitate to contact us if you want more details or have questions or concerns.

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