

Let's Talk About Our Favorite Thing – Taxes

This August, both the Democrats and Republicans held national nominating conferences that were widely received as being successful, despite the lack of traditional pomp and spectacle. Now that the virtual balloons and confetti have been cleaned up, it's time to take a look at both candidates' tax reform proposals, because that's the fun part.

President Donald Trump

Income Taxes

In advance of the Republican Convention, President Trump [released a tax plan](#) that generally seems to focus on two of the sections of his second term agenda, "Jobs" and "Ending Our Reliance on China," although the specific details [haven't been filled in yet](#). The president's "Jobs" focus calls for an unspecified tax cut to boost take-home pay, a "Made in America" tax credit, and an expansion of the TCJA "Opportunity Zones" program to expand investment in economically distressed areas.

Trump's tax proposals also focus on the argument that the tax cuts in 2017's Tax Cuts and Jobs Act are necessary to fuel economic growth and should remain. The president would like to see the TCJA's lowered rates, increased standard deduction, doubled child tax credit, and dependent tax credit – all of which are designed to assist middle-income tax payers – made permanent.

In keeping with the "Jobs" theme of his tax proposals, and increasing tax-home pay, President Trump is pushing for a payroll tax deferral through the end of 2020 and a permanent reduction to the payroll tax. The president [recently signed an executive order](#) deferring the collection of social security payroll taxes from September 1 – December 31, 2020. This is not a reduction or elimination of the payroll tax, just a deferral moving the due date back to April 30, 2021, although the president has promised to push for forgiveness of the deferred taxes in his second term.

Transfer Taxes

Having made substantial, if temporary, changes to the transfer tax exemptions with the 2017 TCJA, President Trump is not proposing any additional changes to transfer taxes. Instead, he is advocating that the increased exemptions in the TCJA be made permanent, thereby eliminating the December 31, 2025, sunset.

Business Taxes

President Trump is also looking for ways in which to bring jobs back on-shore, with a proposal to provide a tax credit for companies relocating to the US and increased deductions for manufacturing done in the US. How those tax credits would work and which industries would be able to utilize the increased deductions needs to be fleshed out by the administration.

In an effort to both increase individual wealth and boost the economy, the president's tax plan includes a reduction in the capital gains tax rate from 20% to 15% and a proposal to index the basis in a capital asset for inflation.



Former Vice President Joe Biden

Individual Income Taxes

As would be expected, [Former Vice President Joe Biden's tax plan](#) is vastly different from that proposed by President Trump, with the main difference being that Biden is calling for increased taxes to generate additional revenue. Specifically, Former VP Biden is calling for increased income and payroll taxes on high income individuals and increased income taxes on corporations. He would increase federal revenues by \$4.0 trillion over the next decade.

Biden wants to raise the highest personal income tax rate back to 39.6% (from its temporary TCJA reduction to 37%), cap itemized deductions, limit 1031 "like-kind exchanges," and phase out the 20% qualified business income deduction created under TCJA. However, Biden is not raising taxes for anyone making less than \$400k per year.

In addition to increasing taxes on the wealthiest Americans, Biden is proposing steps that will increase the [take-home pay of middle-income Americans](#). Those proposals include expanding the child and dependent care tax credit, forgiving student loan debt, expanding the work tax credit for military spouses, expanding access to 401(k) plans and creating a tax credit for small businesses that offer retirement plans.

Transfer Taxes

Biden has also proposed eliminating the basis step-up at death for unrealized capital gains and will end accelerate the December 31, 2025, sunset for the increased estate, gift and GST tax exemptions. This will bring the exemption amount back down to its pre-TCJA levels.

Business Taxes

Biden's plan would increase the top corporate income tax rate from the 21% set under TCJA to 28% and impose a 15% minimum tax on large corporations. The plan also would double the existing minimum tax on profits earned by foreign subsidiaries of US firms, raising it from 10.5% to 21%. The former vice president is also proposing eliminating the temporary net operating loss expansion created under the CARES Act and the tax breaks for prescription drug advertisements and tax incentives for the pharmaceutical industry.

Biden isn't just focusing on increasing business taxes, he also wants to create tax incentives for industry innovation and factory modernization. This includes tax incentives for reducing greenhouse emissions and the creation of carbon capture programs.

To help make sense of all of these proposals, earlier this spring [Deloitte Private Client created this chart](#) comparing current law to the Biden proposals and the Trump proposals.



Individual income - and asset-based tax proposals			
Issue	Current Law	Joe Biden	Donald Trump
Ordinary Income	Top rate of 37% through 2025 Additional 0.9% Medicare income tax applies to earned income >\$250,000 for joint filers and \$200,000 for single taxpayers	Restore top rate to 39.6%	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Limitation on itemized deductions	Pease limitation repealed through 2025	Cap value of itemized deductions at 28%	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Capital gains, dividends	20% tax rate applies to long-term capital gains and qualified dividends Additional 3.8% net investment income tax applies to individuals with income >\$200,000 and joint filers with income >\$250,000	Tax capital gains and dividends as ordinary income for those with income >\$1 million (possibly combined with a mark-to-market regime for those taxpayers)	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Carried interests	Treated as long-term capital gain if held for at least three years	Tax as ordinary income	No specific proposals to change the tax treatment of carried interest
Pastthrough income	Generally taxed at owner's individual rate, subject to a 20% deduction under section 199A for domestic business profits (deduction expires after Dec. 31, 2025)	No proposal	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Payroll taxes	Social Security: 12.4% tax is equally split between employers and employees on first \$137,700 of employee's wages (the cap for 2020, indexed for inflation) Medicare: 2.9% tax is equally divided between employers and employees; no income limit applies	Expand Social Security payroll tax to apply to wages >\$400,000	No specific proposals for permanent structural changes to payroll taxes
Estate tax	40% estate, gift, and generation-skipping tax; basic exclusion of \$10 million per taxpayer, adjusted annually for inflation (\$11.58 million in 2020); increased exemption sunsets Dec. 31, 2025	Repeal stepped-up basis at death	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law

As with all tax proposals made during campaign season, these are just proposals. It takes Congress to actually enact new tax legislation and as we saw with the 2017 TCJA, in many crucial areas, what was originally proposed was vastly different from what was finally enacted. In the meantime, we will continue to track how these proposals evolve over the balance of this election cycle, how Congress responds to the proposals and where you can find opportunity for your clients.

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