

## How Biden's Proposed Tax Plan Compares to Current Tax Law

The presidential election is over (we think) and it appears that Joe Biden will be the next President. With that being said, no one is sure if the tax plan Biden proposed during his campaign will make it through Congress as the Democratic Party only has a small majority in the House and the outcome of the Senate is still unknown right now. Below are some of the highlights of the tax plan he disclosed during his campaign compared to the current tax law. Biden's plan is very much subject to change.

Topic	Biden's Plan	Current Law
Social Security Tax	12.4% on wages up to \$137,700 and over \$400,000 split between employee and employer	12.4% on wages up to \$137,700 split between employee and employer
Individual Top Bracket Tax Rate	39.6% on income over \$400,000	37% on income \$518,401 or more
Capital Gain Tax and Qualified Dividends	Additional tax bracket over \$1 million, capital gain rate is taxed at 39.6%, otherwise 0%, 15%, 20% depending on tax bracket	0%, 15% 20% depending on tax bracket
Qualified Business Income Deduction	Generally, a 20% deduction on qualified business income subject to phaseout on taxable income above \$400,000	Generally, a 20% deduction on qualified business income subject to some limitations
Itemized Deductions Limitations	Caps tax benefit of itemized deductions to 28% of value for those earning more than \$400,000 and restore Pease limitation	N/A
Child and Dependent Care Tax Credit	Maximum of qualified expenses set to \$8,000 (16,000 for multiple dependents) and increases reimbursement rate at 50%	Maximum of qualified expenses set to \$3,000 and with reimbursement rate at 35%
Corporate Tax Rate	Flat 28% tax rate	Flat 21% tax rate
First-Time Homebuyers' Tax Credit	Credit up to \$15,000 for first-time homebuyers	N/A
Estate and Gift Tax Rates	\$3,500,000 exemption and 45% maximum tax rate and repeal "stepped-up" basis at death	\$11,580,000 exemption and 40% flat tax rate
"Made in America" Credit	10% advanceable credit for activities that restore production, revitalize existing closed or closing facilities, retool facilities to advance manufacturing employment, or expand manufacturing payroll	N/A

# Payroll Protection Program Forgiveness Application

The Payroll Protection Program (PPP) has been a widely popular program that was signed by the President on April 24, 2020, to help employers keep their employees during these troubled times. Now that the PPP funds have been distributed, it is time to go through the process of getting the loans forgiven. The Small Business Administration (SBA) is leaving it to the banks to come up with their own system for the forgiveness process, so there is no standard in place.

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## Some important things to know:

- Either an 8-week or 24-week covered period can be used.
  - If you had a reduction in work force or material salary reductions, this could possibly reduce your forgivable amount. Generally, you have until December 31, 2020, to restore to pre-COVID amounts with some exceptions.
  - PPP repayments are deferred to either the date the SBA remits the borrower's loan forgiveness amount to the lender or if the borrower does not apply for loan forgiveness, then it is deferred to 10 months after the end of the covered period.
  - The forgiveness application can be submitted any time before the maturity of the PPP loan. This could be 2 or 5 years from the date that you received the funds depending on the terms agreed upon with your bank.
  - The lender has 60 days from receipt of a complete loan forgiveness application to issue a decision to the SBA. The SBA then has 90 days from that point to issue its decision to release the funds to the bank.
  - Loans \$50,000 or less are eligible for a streamlined forgiveness process. Conversely, loans over \$2 million have an additional questionnaire to submit with their forgiveness applications, Form 3509 for for-profit borrowers and Form 3510 for non-profit borrowers, to aid the SBA with the required review of the loans.
  - **Currently, the IRS is taking the stance that the loan amount forgiven is non-taxable however, the expenses that the money was used on, will be non-deductible. This may be subject to change as this was not Congress' intent when this was initially created.**
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From the inception of the program to date, the program has changed many times and the application can get very complex. We are here to guide you through the loan forgiveness process and help provide you some peace of mind.

## Tax Planning Ideas...

### **Charitable Contributions to Assist with COVID-19 Pandemic Relief**

Under the CARES Act, taxpayers may elect on their 2020 income tax return to deduct up to 100% of adjusted gross income for cash gifts made in 2020 to public charities.

### **Required Minimum Distributions**

Taxpayers who have reached age 72 during 2020 (70 ½ prior to 2020) and are retired generally need to make sure that they are making their required minimum distributions (RMD's) from IRA's. The CARES Act eliminated the need to take RMD's for 2020. However, it may be more beneficial to take the RMD in 2020 as there might be an increase in tax rates under Biden's presidency.

### **Converting to a ROTH IRA**

Individuals who have a majority of retirement assets in a traditional retirement account might consider converting a portion of those assets to a ROTH IRA retirement account (which currently grows tax free and qualified withdrawals are tax-exempt) and picking up that income now while tax rates are at a low point for the foreseeable future. As a planning tip, individual taxpayers who have a Net Operating Loss (NOL) in 2020 or one that is being carried forward to 2020 may want to consider using this as an opportunity to use the NOL to offset income from the Roth IRA conversion.

### **Bonus Depreciation**

As part of the Tax Cuts and Jobs Act passed in 2017, bonus depreciation was doubled from 50% to 100% which allows the taxpayer to accelerate depreciation on most fixed assets to be completely deductible in the first year. We are just two years away from the start of the phase out of bonus depreciation. Starting Jan 1, 2023 bonus depreciation will drop 20% each year reaching 0% in 2027. If your company plans on having large fixed asset purchases in the future, it might be beneficial to get them placed in service before the end of the 2022.

### **Estate and Gift Planning**

Biden's tax plan would look to restore the estate and gift tax rates to the 2009 levels. Currently, the 2020 estate tax exemption is \$11.58 million (\$23.16 for married couples). Restoring this to the 2009 levels would reduce the estate tax exemption to \$3.5 million (\$7 million for married couples). With this reduction, estates that would have previously been under the taxable threshold may now be over the exemption amount and subjected to a maximum 45% estate tax rate. We offer estate planning services to help lower any potential estate tax burdens and preserve your wealth for future generations.

This list is not meant to be exhaustive, but highlights some of the changes that will affect most of our clients. To get a handle on your individual situation, please feel free to schedule an appointment before the end of the year so that we can assist you in making the decision that's right for you.

We appreciate your continued business  
and wish everyone a safe and happy holiday season!

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