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THE AMERICAN FAMILIES PLAN THOUGHT LEADERSHIP PERSPECTIVES

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PRESIDENT BIDEN RECENTLY PROPOSED THE AMERICAN FAMILIES PLAN WHICH CALLS FOR AN INCREASED AUDIT RATE AND HIGHER INCOME TAXES

The proposed changes could require proactive tax planning now to determine the best timing of income recognition. The Plan includes several new spending initiatives in the areas of education, childcare, paid leave, nutrition, unemployment insurance, and tax credits. To raise revenue, the President's proposals include additional tax law changes.

THE PLAN'S TAX PROVISIONS AND HOW THEY COULD AFFECT YOU

- **Audit More Taxpayers with Income over \$400,000**

The Internal Revenue Service (IRS) has had its budget cut over the past decade. That has meant a lack of resources for tasks such as assisting taxpayers with questions and auditing tax returns. The President's plan calls for increased funding for the IRS specifically for enhanced enforcement. The focus will be on auditing large corporations, businesses, estates, and high-income individuals. 'High-income' is defined as income greater than \$400,000.

What could an increased audit rate mean? A greater likelihood that you could be audited. In a best-case scenario, an audit is extremely time consuming but results in no change. However, even in a no change audit, additional time will be spent by taxpayers and/or tax professionals to deal with the audit.

- **Increase the Top Rate to 39.6%**

The plan proposes a return to a top income tax rate of 39.6%. Keep in mind, there would still be the additional Medicare tax of 0.9% on earned income and 3.8% Net Investment Income Tax on investment income for a total tax of 44.3%.

- **Tax All Income at 39.6% for Households with Income over \$1 Million**

For households with income over \$1 million, all income will be subject to the 39.6% tax rate. This includes capital gains and qualified dividends.

- **Limit Like-Kind Exchanges for Gains Greater than \$500,000**

Like-kind exchange treatment was limited under the Tax Cuts and Jobs Act to only include gains on real estate. President Biden would further limit this by only allowing like-kind exchanges for gains less than \$500,000.

- **Make Permanent the Limitation Restricting Excess Business Losses**

The restriction on excess business losses is set to expire at the end of 2025. President Biden would make this limitation permanent.

- **End Step-Up in Basis and Tax the Gains in Excess of \$1 Million**

Similar to the proposed H.R.2286 and STEP Act, the American Families Plan would end the 'step-up' in basis at death. The plan would treat death as an income realization event and gains in excess of \$1 million (\$2 million per couple) would be taxed. There would be exceptions for property donated to charity, farms, and family businesses where heirs continue to run the business.

DURING THESE UNCERTAIN TIMES, TAKING PROACTIVE INCOME TAX PLANNING STEPS IS ESSENTIAL. WE STAND READY TO HELP YOU ADDRESS ALL OF YOUR PLANNING CONCERNS. PLEASE REACH OUT TO A MEMBER OF YOUR FAIRMAN GROUP FAMILY OFFICE SERVICE TEAM OR CONTACT OUR OFFICE TODAY.

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