



## Washington Policy Research

July 16, 2021

As part of his plan to fund key initiatives, President Biden has proposed several tax changes, including taxing unrealized capital gains over \$1 million at time of death and altering how estate taxes are calculated. As is often the case when Congress gets involved, we think actual changes will be more modest than what's been proposed when it's all said and done.

### Strategas Washington Research

Dan Clifton  
Courtney Rosenberger  
Jeannette Lowe  
Christopher McGrath

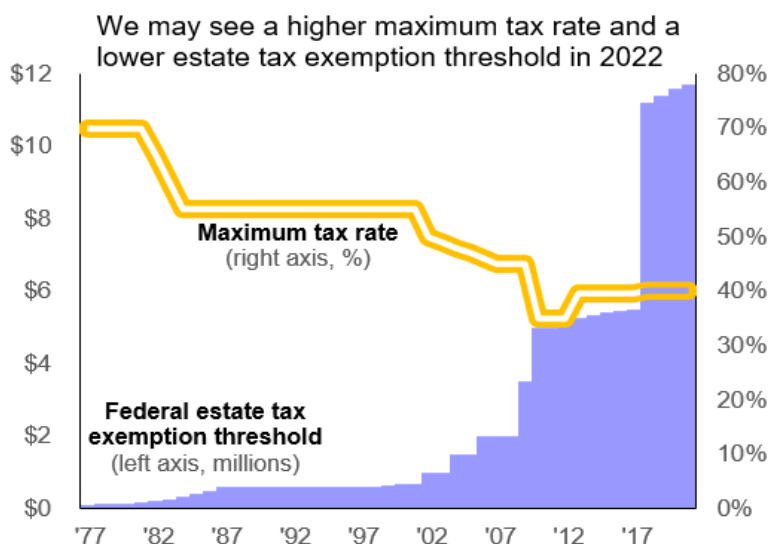
### CHANGES TO THE ESTATE TAX NOT EXPECTED TO BE DRASTIC

**Changes on the table:** President Biden's proposed tax on unrealized capital gains over \$1 million at the time of death is tied to his proposal to tax capital gains and dividends at ordinary income rates, [which we discussed last month](#). These changes would take steps to prevent investors from avoiding the tax by simply not realizing gains. He also wants to change the estate tax from "step up in basis" to "carryover basis," which would mean the person inheriting the assets is responsible for paying taxes for price appreciation from an earlier, and often lower, cost basis. Let's look at the current estate tax, past changes, and what we expect to emerge from the other end of the legislative process.

**The rules we have now:** The chart below shows historical changes and where we are today. The current maximum estate tax rate is 40% on estates more than \$1 million above the \$11.7 million threshold. As you can see in the chart, Congress doubled the federal estate tax exemption threshold in 2017 and had previously indexed it to inflation (though the higher threshold is slated to expire in 2025). Currently, when an asset transfers due to death, the cost basis is "stepped up" to the market value at the time of death, so that the heir is not taxed on the entire price appreciation of the asset from its original purchase. This could be changed under the new proposal.

**Previous (failed) attempt to change to carryover basis:** Congress attempted to move the estate tax to a carryover basis in 1976 but measuring the original basis proved to be administratively complicated and after significant pushback, Congress repealed the change retroactively in 1979. Then-Senator Biden was one of just four senators to vote against the repeal.

**Present-day opposition to new changes:** Members of Congress, particularly from farm states, are expressing opposition to the unrealized capital gains provision (despite proposed exemptions for farms). Moderate Democratic senators have also voted to repeal the estate tax in the past. Therefore, we think moving to a carryover basis *and* establishing an unrealized capital gains tax seems unlikely.



**What seems likely, given all the factors:** We expect changes to the estate tax to be fairly modest, such as a higher rate and lower exemption threshold. Although estate tax changes have been applied retroactively in the past, we expect the effective date to be near enactment of the legislation (which will be a budget reconciliation bill passed by Democrats). At the same time, the closer the bill's enactment approaches year-end, the more likely the effective date will be 2022.

## Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

This report does not provide recipients with information or advice that is sufficient to base an investment decision on. This report does not take into account the specific investment objectives, financial situation, or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

For investment advice specific to your situation, or for additional information, please contact your Baird Financial Advisor and/or your tax or legal advisor.

Fixed income yield and equity multiples do not correlate and while they can be used as a general comparison, the investments carry material differences in how they are structured and how they are valued. Both carry unique risks that the other may not.

Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

Strategas Asset Management, LLC and Strategas Securities, LLC are affiliated with and wholly owned by Robert W. Baird & Co. Incorporated, a broker-dealer and FINRA member firm, although the firms conduct separate and distinct businesses.

Copyright 2020 Robert W. Baird & Co. Incorporated.

## Other Disclosures

### **UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.**

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB, and is a company authorized and regulated by the Financial Conduct Authority. For the purposes of the Financial Conduct Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Conduct Authority ("FCA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FCA requirements and not Australian laws.