2020 election: How Biden's proposals compare to current tax policy

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The Tax Cuts and Jobs Act (TCJA) of 2017 was the largest single overhaul of the US tax code in more than three decades. Three years later, as the 2020 presidential election kicks into high gear, Democratic nominee Joe Biden is proposing another sweeping change to the current tax code, including:

- Undoing the TCJA's tax cuts, which gave relief to more affluent households and businesses, by moving the top rate of income tax back up from 37% to 39%
- Increasing long-term capital gains taxes for those earning more than $1 million to the same level as income tax, meaning a jump for top earners from 20% to 39.6%
- Limiting various tax breaks for higher earners
- Subjecting wages above $400,000 to the Social Security payroll tax
- Raising corporate taxes from 21% to 28%, though not all the way to the 35% rate before Trump's cuts
- Setting minimum corporate taxes for domestic and foreign income

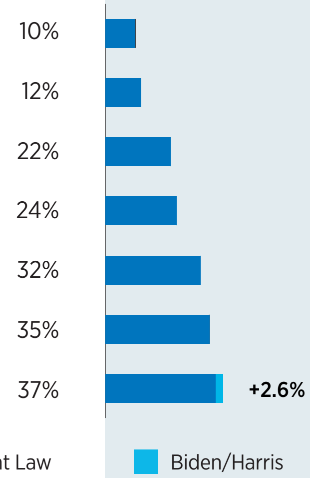
Biden has made tax policy a centerpiece of his campaign. However, few policy experts believe that if elected, Biden would address tax policy right out of the gate. Instead, he is expected to focus attention on seeking Congress's support to enact his more immediate coronavirus relief package to help shore up the economy and send more money to strapped local governments.

What would a Biden presidency mean for your taxes?

Comparing the Biden/Harris plan with current law under the Tax Cuts and Jobs Act (TCJA) of 2017

Current Law | **Biden/Harris**

Individual Income Tax Rates

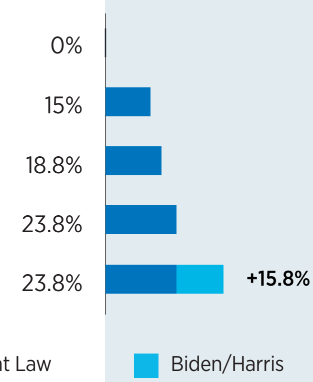


Current Law	Biden/Harris
$10,000 cap on state and local tax (SALT) deductions	Repeal individual tax provisions of TCJA including SALT cap and QBI deduction
20% deduction for qualified business income (QBI), REIT dividends and PTP* income (known as 199A).	

Federal Income Tax Brackets for 2020

Single	Married
$0 – $9,875	$0 – $19,750
$9,876 – $40,125	$19,751 – $80,250
$40,126 – $85,525	$80,251 – $171,050
$85,526 – $163,300	$171,051 – $326,600
$163,301 – $207,350	$326,601 – $414,700
$207,351 – $518,400	$414,701 – $622,050
$518,401+	$622,051+

Capital Gains



Income Thresholds for Capital Gains

$0 – $78,500

$78,500 – $250,000

$250,000 – $488,850

$488,850 – $1,000,000

$1,000,000+

*PTP = publicly traded partnership

	Current Law	Biden/Harris
Wealth Tax		
	Doubled estate tax exemption from $5.6M to $11.2M	Eliminate tax breaks that reward special interests Limit benefit for itemized deductions to 28% rate Limit foreign tax havens
Payroll Taxes		
	Employee and employer both pay 6.2% Social Security tax on wages < $137,700 1.45% Medicare tax on all wages Employee only pays 0.9% Medicare tax on wages	Employee and employer both pay 6.2% Social Security tax on wages < $137,700 > $400,000
Corporate Taxes		
	Lowered corporate tax rate from 35% to 21%	Raise corporate tax rate from 21% to 28% Impose 15% minimum tax on book income Double foreign profits tax rate from 10.5% to 21%

Wage Thresholds for Employee Payroll Tax

Single	Married
$200,000+	$250,000+

Source: Biden/Harris campaign, Committee for a Responsible Federal Budget (CRFB), Washington Council Ernst & Young as of August 2020.

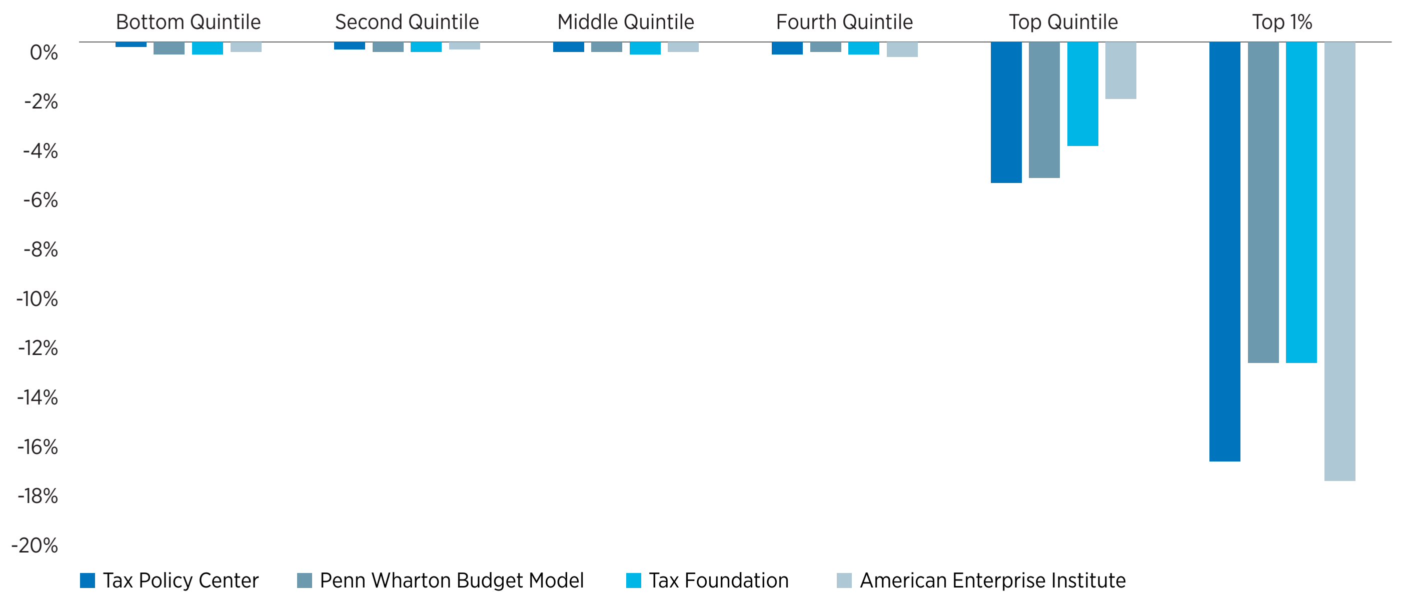
Individual Tax Proposals

Biden stated during an August interview with ABC News that his tax plan will not raise taxes for anyone making $400,000 per year or less. According to the CRFB, his plan would increase taxes for the top one-fifth of earners by 2.3% to 5.7% of after-tax income in 2021. The bulk of this increase is driven by a 13% (consistent with precision elsewhere) to 17.8% increase for the top 1% of earners.

Exhibit A

Taxes will increase for high earners under the Biden Tax Plan

Estimated percent change in 2021 after-tax income under the Biden tax plan, by income quintile



Each Quintile includes 20% of the full range of incomes.

Source: Committee for a Responsible Federal Budget, "Understanding Joe Biden's 2020 Tax Plan," July 30, 2020.

Key points

Biden plan restores the top individual income tax rate to 39.6%[1]

TCJA: Individuals earning over $207,000 and couples earning over $415,000 pay a marginal income tax rate of 35%; individuals making over $518,000 and couples making over $622,000 pay a 37% top rate.	**Biden Plan:** Most of the focus on changes to income tax rates will be on the top earners. Biden and the Democrats would likely keep most tax brackets intact but the top bracket would be increased from 37% to 39.6%.

Biden plan increases capital gains taxes for individuals with incomes over $1 million

TCJA: Long-term capital gains are taxed at a top rate of 20% (plus a 3.8% surtax), while earned income is taxed at a top rate of 37% (plus a 3.8% payroll tax). At death, an asset's cost basis gets "stepped-up" from the cost at the time of purchase to the cost at the time of transfer.	**Biden Plan:** Biden has proposed that all capital gains (short term and long term) and dividends should be taxed as ordinary income for those earning more than $1 million. This would almost double the tax rate on long-term capital gains and qualified dividends from 20% to 39.6% — even without the 3.8% payroll tax, which could also increase. The stepped-up basis for capital gains at death would be eliminated. Biden does not specify whether the capital gains would be carried over to the beneficiaries or taxed at the time of death. However, most estimators have assumed the plan would resemble an Obama-era proposal that taxed capital gains at death.

Biden plan phases out the business income deduction above $400,000

TCJA: Some revenue from pass-through entities — for example, sole proprietorships, partnerships and S-corporations — is partially deductible against income. Allows business owners to deduct 20% of qualified business income (QBI).	**Biden Plan:** Maintains the current deduction for those making under $400,000 per year while phasing out the deduction completely for higher earners.

[1] Committee for a Responsible Federal Budget, "Understanding Joe Biden's 2020 Tax Plan," July 30, 2020.

Biden plan caps itemized deductions for high earners	
TCJA: Taxpayers can claim a $24,800 per-couple standard deduction or deduct from their income the combined cost of mortgage interest paid, charitable giving, state and local taxes (up to $10,000) and certain other itemized deductions. Only one-tenth of taxpayers itemize their deductions, but more than half of taxpayers in the top income decile do.	**Biden Plan:** Institutes an overall cap of 28% on the rate against which a taxpayer could take itemized deductions. Reinstates the "Pease Limitation," which effectively reduces the amount that can be deducted above a certain threshold for those with income above $400,000.

Biden plan increases the Social Security earnings cap	
TCJA: Social Security is funded through a 12.4% payroll tax — with half paid by employers and half paid by employees — on income up to a certain taxable maximum. That taxable maximum increases each year at the rate of wage growth.	**Biden Plan:** Increases revenues into the Social Security program by subjecting wages above $400,000 to the 12.4% payroll tax. That would create a "donut hole" in Social Security payroll taxes between the current maximum — $137,700 in 2020 — and $400,000. Over time, that donut hole would close as the current taxable maximum continues to increase with wages, while the $400,000 threshold remains static.

Other potential changes	
Financial Transactions Tax (FTT): While Biden hasn't proposed a FTT, many Democrats have floated the idea of adding a transaction tax to all security purchases and sales. While the FTT slightly decreases the tax benefit, the tax benefit from the trade far outweighs the tax cost.	**Estate Tax Exemption:** It is expected that the exemption will be rolled back to the pre-2017 tax law exemption level of $3.5 million. **Wealth Tax:** Many presidential candidates such as Elizabeth Warren and Bernie Sanders are advocates of a wealth tax but this is not currently a part of the Biden tax plan. **Mark-to-Market gains:** Another plan that has been pushed by some Democrats which would tax high earners annually on unrealized capital gains. This is not a part of the Biden tax plan.

Corporate Tax Proposals

Biden's proposal raises the corporate rate to 28%, which is still a lower rate than the pre-TCJA rate of 35%. In addition to raising the corporate tax rate, Biden is also in favor of setting a minimum tax for corporations based on their reported "book income," and he would end the practice of using real estate losses to reduce tax liabilities.

Key Points

Increase the corporate income tax rate to 28%	
TCJA: Lowered the corporate tax rate from 35% to 21%.	**Biden Plan:** Increase the statutory tax rate on corporate income from its current 21% to 28%, while also eliminating certain corporate deductions and preferences.

Biden plan imposes a 15% minimum tax on book income	
TCJA: None.	**Biden Plan:** Institute a 15% minimum tax on "book" profits — reported annual income net of annual expenses — for corporations with at least $100 million in annual income. Corporations would still be allowed to claim deductions for losses carried forward from previous years and foreign taxes paid.

Biden plan doubles the minimum tax on foreign income to 21%	
TCJA: Global Intangible Low-Taxed Income (GILTI) tax rules require multinational companies to pay a tax of 10.5% on foreign income generated from intangible assets held abroad, such as patents and copyrights.	**Biden Plan:** Doubles the GILTI tax from 10.5% to 21%.

Biden plan establishes a financial risk fee on large banks	
TCJA: None.	**Biden Plan:** Institute a "financial risk fee" on banks, bank holding companies and other financial institutions with over $50 billion in assets. It may be similar to the Financial Crisis Responsibility Fee proposed by President Obama in 2015, which would have levied a 7 basis point fee on covered liabilities — defined as total assets minus tier 1 capital* and FDIC-insured deposits.

*Core capital, primarily common stock and disclosed reserves or retained earnings, possibly also non-redeemable non-cumulative preferred stock

The expected revenue impact of the Biden tax plan

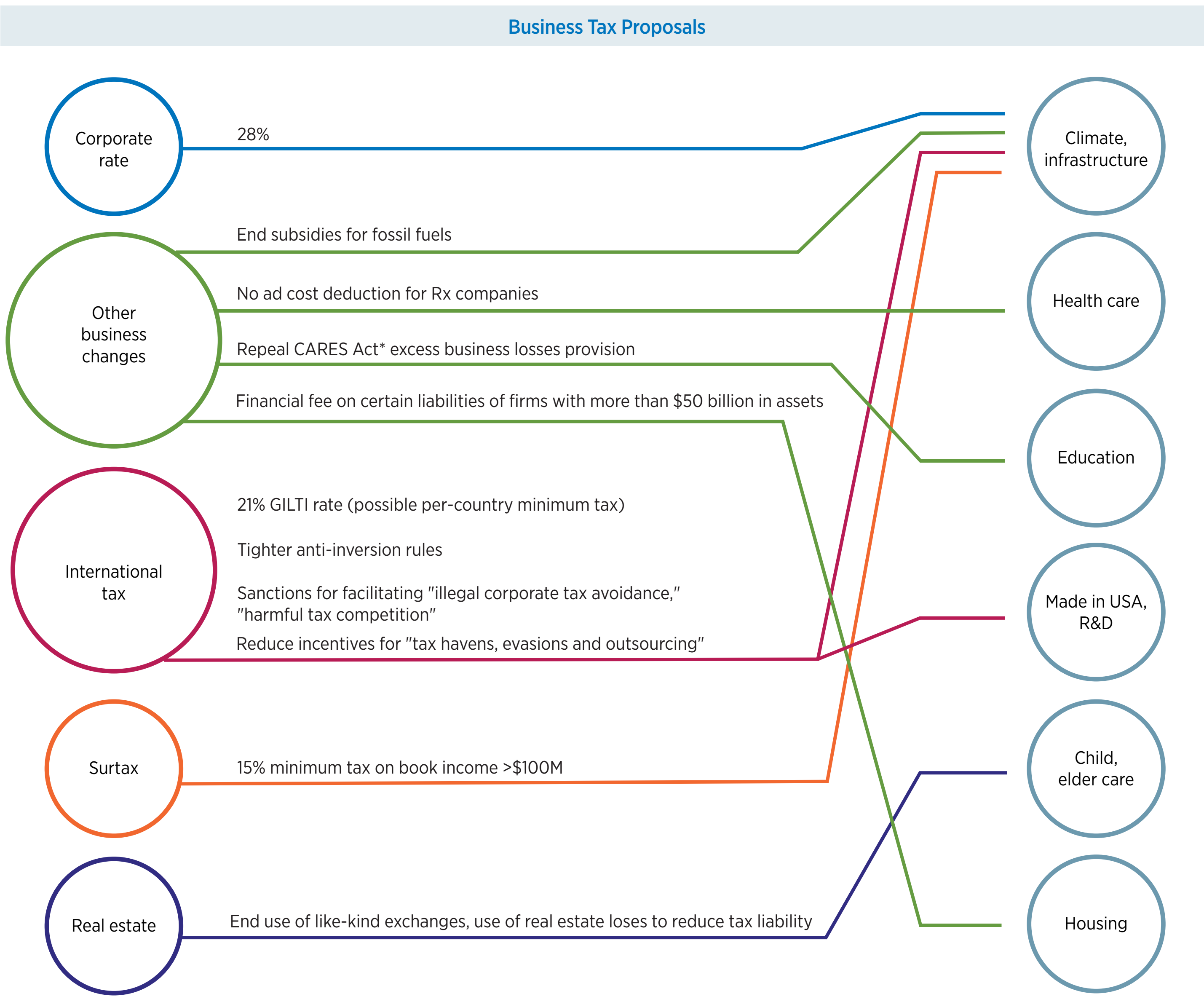
Many elements of his tax plan were closely analyzed by the Tax Policy Center (TPC), Penn Wharton Budget Model (PWBM), Tax Foundation (TF) and American Enterprise Institute (AEI). The Committee for a Responsible Federal Budget (CRFB) incorporated these estimates into their own analysis[2] and found that:

- Biden's tax plan would raise between $3.35 trillion and $3.67 trillion — or 1.3% to 1.4% of GDP — over a decade if enacted in full starting in 2021.
- The Biden tax plan is highly progressive, increasing taxes for the top 1% of earners by 13% to 18% of after-tax income, while indirectly increasing taxes for most other groups by 0.2% to 0.6%.
- Biden's tax plan is estimated to moderately slow the pace of economic growth by discouraging work and capital accumulation because of its increases in effective marginal tax rates.

Exhibit B

What does the Biden tax plan pay for?

Highlights of Biden tax increase proposals and plans they would pay for

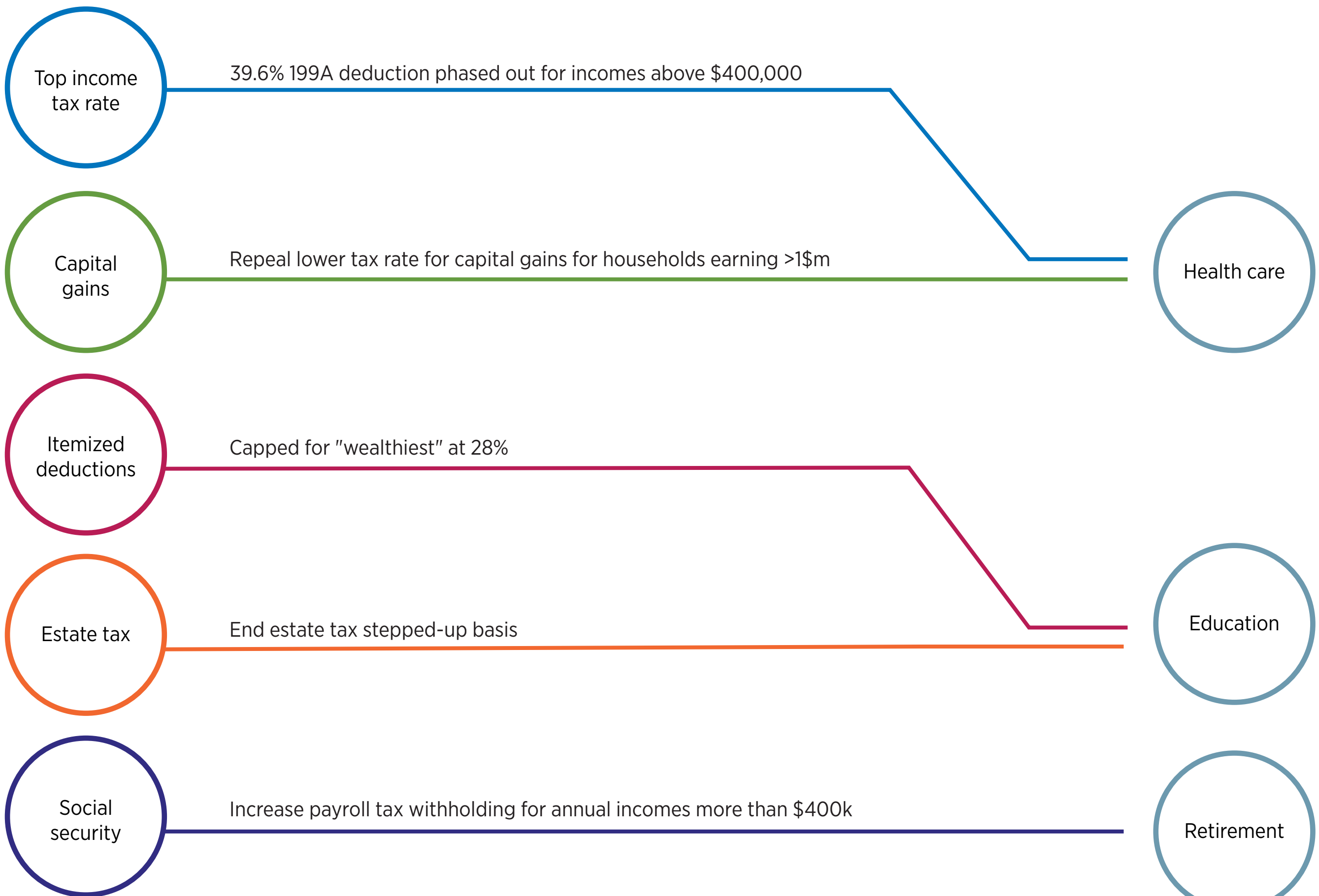


Source: Washington Council Ernst & Young, "Post-2020 tax policy possibilities," August 17, 2020.

*Coronavirus Aid, Relief, and Economic Security Act

[2]Committee for a Responsible Federal Budget, "Understanding Joe Biden's 2020 Tax Plan," July 30, 2020.

Individual tax proposals



Source: Washington Council Ernst & Young, "Post-2020 tax policy possibilities," August 17, 2020.

Important Disclosures

Source of all data: Committee for a Responsible Federal Budget, joebiden.com and Ernst & Young as of August 28, 2020, unless otherwise specified. This material is presented for informational and illustrative purposes only.

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