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New Tax Proposals

By Xenia Woltmann

Recently, President Biden released *"General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals."* The proposal is 114 pages and outlines several recommended changes.

The proposal that is concerning to most taxpayers relates to the taxation of capital income which would potentially increase the top capital gains tax rate from 20% to 39.6%. When you tack on Michigan state tax of 4.25% and a 3.8% federal surtax, some may be paying over 47%. Many taxpayers, accountants, and advisors are waiting for confirmation of the effective date of the change. The proposal currently states that it would be effective for gains required to be recognized after the date of the announcement. This date could be late April or late May.

Additionally, the proposal changes the treatment of transfers of appreciated property; in affect eliminating the "step-up in basis" on property inherited at death. Currently, any person that receives an appreciated asset receives a cost basis equal to its fair market value at the time of the donor's death. This allows any appreciation during the life of the donor to not be taxed. The proposal would create a taxable event at the time of the transfer equal to the current fair market value minus the donor's cost basis.

Since 2018, taxpayers were able to take advantage of lower marginal tax rates due to the Tax Cuts and Jobs Act which came into law in December of 2017. Many of these tax provisions are set to expire in 2025, however with the new proposals, this change may happen as early as 2022. Upon expiration, if you are married filing jointly with a household income of $300,000, your marginal tax rate could jump from 24% to 33%.

Another potential concern is the increase in the corporate tax rate from 21% to 28%. Note that President Biden has indicated a willingness to compromise at a rate of 25%. There has also been talk of eliminating the ability to defer capital gains from the sale of real estate for gains greater than $500,000. This would impact "like-kind" exchanges and owners of depreciable real estate.

These are only a few of the proposed changes. As with all financial, legal, and tax decisions, it is important to consult with your trusted advisors to understand these changes and prepare accordingly.

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