



American Jobs Plan Pay-Fors

TAX PROPOSALS INCLUDED IN PRESIDENT BIDEN'S PLAN

Revenue Raiser	What it Does	Small Business Impact	Good for Small Biz?
Raise Top Individual Income Rate to 39.6%	Increase the individual federal income tax bracket from 37% to 39.6%, which would apply to income over \$452,700 for single and head of household filers and \$509,300 for joint filers. This was the 2017 rate for incomes above \$418,400, before the Tax Cuts and Jobs Act (TCJA) was approved.	Raising the personal income tax rates on individuals and households earning more than \$400,000, could impact some small businesses organized as "pass-through" entities. Owners of unincorporated pass-through entities report business income on their personal taxes and are therefore not subject to the corporate tax rate. Thus, the outright tax proposal would raise rates on these small business owners' income to 39.6% from 37%.	Depends on business
Raise the Corporate Tax Rate to 28%, up from the Current Rate of 21%	Increase the corporate income tax rate from the 21% level in effect since 2018 to 28%. A 28% tax rate would be significantly lower than the top corporate effective rate of 35% that applied from 1994 to 2017.	The smallest corporations (majority of C corps have receipts of less than \$1 million) would be subject to the increase in the corporate tax rate to 28 percent, not just the largest corporations, meaning a massive tax hike for the smallest corporations.	Depends on business
Reduce Step-up Basis at Death	Limits the step-up in basis of appreciated assets passed down to heirs to \$1 million of appreciation. To protect family-owned businesses and farms, it would exempt from tax gains passed down to heirs where the heirs continue to run the business. More information is needed on who would qualify for the exemption.	Stepping up basis when an individual who is a member of a family-owned business dies is critical to that business surviving the loss of a loved one and a business partner. Repealing stepped-up basis by imposing capital gains taxes when assets transfer ownership at death would force many family-owned businesses to liquidate assets or lay off employees to cover the tax burden. This new tax would be imposed on top of any existing estate tax liability, further compounding the negative impacts and creating a second tax at death.	No

<p>Raise Capital Gains Taxes for the Wealthiest</p>	<p>Taxpayers with gains over \$1 million will have to pay a higher tax rate of 39.6% on investments. This is almost double the current capital gains tax rate which is levied at 20% for individual taxpayers with income over \$445,850. Biden's tax plan will make these investors pay the same rate for investments as they do on wages, and close the stepped-up basis loophole that allows heirs to reduce capital gains taxes. Note that the IRS also charges high-income investors an additional 3.8% net investment income tax created by the Affordable Care Act. This could raise Biden's proposed effective tax to 43.4%.</p>	<p>Eliminating the current rate on long-term capital gains for individuals with taxable income in excess of \$1 million means it would go to the same level as the top ordinary income rate of 39.6%, which would be close to double the 23.8% top rate under current law and would have big implications for any sale of a business for an owner above the taxable income threshold.</p> <p>It is unclear what specific policy details will protect the farms and family-owned businesses. More details are needed.</p>	<p>No</p>
<p>Eliminate Medicare Tax Loopholes</p>	<p>The White House says high-income workers and investors generally pay 3.8% Medicare tax on earnings. However, loopholes allow them to avoid them. Biden wants to expand the 3.8 percent Medicare tax to pass-through entity owners earning over \$400,000, ensuring that all high-income Americans pay the same Medicare taxes.</p>	<p>One of the advantages of the S corporation structure is the ability to limit payroll taxes by having separate pots of money for status as an employee and as an owner. This proposal would potentially limit that advantage based on the structure of the entity. The American Families Plan does not include an elimination of the cap on Social Security taxes, which has also been discussed.</p>	<p>Depends on business</p>
<p>Invest in IRS Enforcement</p>	<p>Increase funding to enforce tax law and prevent high-income Americans and corporations from evading taxes. IRS Commissioner Charles P. Rettig told the Senate Committee on Finance in April that the U.S. is losing roughly \$1 trillion in unpaid taxes annually. The White House says that the top 1% of individual taxpayers failed to report 20% of their income and did not pay \$175 billion owed in taxes.</p>	<p>The IRS has estimated the tax gap—the difference between taxes due and taxes paid—is \$440 billion per year. According to the IRS, \$264 billion of that underreporting tax gap is from individual income taxes, and nearly half of that amount—about \$125 billion—comes from underreporting by pass-through business filers such as sole proprietors, farmers, and those earning rental, royalty, partnership, and S-corporation income. Small businesses are prime targets for stepped-up enforcement.</p>	<p>No</p> <p>*Unless focus is on compliance assistance vs. enforcement</p>

Tax Proposals NOT included in President Biden's Plan

Revenue Raiser	What it Does	Good for Small Biz?
Estate Tax Increase	President Biden had initially proposed reducing the current estate tax exemption from \$11.7 million to \$3.5 million and increasing the maximum estate tax rate from 40% to 45%. This would have rolled back the estate and gift tax rates and exemptions back to 2009 levels.	No
Eliminating the 20 percent deduction for passthrough income under section 199A	The 199A provision allows pass-through businesses, such as sole proprietors, partnerships and S-corporations, to deduct up to 20% of eligible revenue. Without an extension from Congress, the deduction will expire after 2025. President Biden initially considered removing the pass-through deduction.	No
Limitation on State and Local Tax (SALT) deductions	While it was anticipated that Biden's plan would eliminate the \$10,000 SALT deduction cap, the Plan does not address this, effectively leaving the cap in place. Biden has previously stated that he would like to eliminate the cap, so it is possible it will be in future proposals.	Depends on business