

Advisory Commentary

President Outlines \$1.8 Trillion American Families Plan

May 5, 2021

The White House has provided details behind President Biden's \$1.8 trillion American Families Plan. The plan includes many of the tax provisions that were set forth in the President's campaign.

The proposed programs include universal preschool for three- and four-year-old children along with two years of tuition-free community college. There would be additional funding for teacher and childcare education, free or reduced childcare options for lower-income families, expanded paid-leave programs, and money towards improving student lunch programs. Lastly, the plan would provide additional money to the IRS for improved enforcement.

The plan detailed several tax changes proposed for 2022.

- Increasing the corporate tax rate from 21% to 28%.
- Rolling back the top tax rate to 39.6% from 37%.
- Eliminating several current tax provisions:
 - The preferential tax rate on qualified dividends and long-term capital gains for taxpayers with \$1 million or more of income. This would move the income tax rate from 20% to 39.6% before adding in the 3.8% Medicare tax on net investment income.
 - The tax-free basis step-up on inherited property where the unrealized gain exceeds \$1 million dollars. This could be increased to \$2.5 million per couple when utilizing exemptions for real estate.
 - Tax deferral on Section 1031 like-kind exchanges of real estate.
 - Carried interest provisions that provide preferential tax rates to hedge fund and private equity partners.

The proposal did not provide details on reducing the estate tax exemption or removing the deduction limitation on state and local taxes. Those are expected to be addressed at some point soon.

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