Biden: Higher Taxes

My Thoughts on President-Elect Biden's Tax Policy

Hey guys and girls, Ron Parks here, and welcome back to the channel.

Today we're going to tackle a few things; I'm going to delve into something a little tricky. I'd like to go over some current events that I've been asked about before getting to some other things.

I'm going to try and talk politics without getting too political.

I think we all know things haven't been this divisive in America for a very long time; a lot of people are at each other's throats, and you're bound to lose about half your audience if you start endorsing people.

I have opinions, but they aren't necessarily relevant right now. Obviously, there will be aspects of what I'm talking about that might appear divisive given the basic nature of politics, but I'll try to be as neutral as possible.

After all, this channel is about teaching everyone how to be smart with their money, the best ways to save, and how to navigate the financial world without risking too much. I think that's a pretty bipartisan cause.

So today, we're going right into current events; there's a new President-elect whether you like it or not, and obviously, that's going to affect your taxes. You talk to people on the street, and their biggest legitimate concern with Biden is that your taxes are going to skyrocket.

So first, I'm going to go over what you're paying now versus what you stand to pay in the future, then I'm going to tell you the best ways to reduce that number. After dealing with the here and now, I'd like to get into something that's been on my mind recently. So we'll save the best for last.

I'm no Grover Norquist when it comes to taxes; we're citizens, we all pay our way. But how much you pay is going to depend on you.

What are my thoughts on paying higher taxes? I prefer them not to go up. It's that simple.

So, let's start with a little background. In 2017. a new tax plan was unveiled called the Tax Cuts and Jobs Act. It's a 200-page document. I'm not going to go through everything; I'll just summarize what it did.

This was essentially meant to be a massive tax cut for everyone.

Every single tax bracket was lowered (ref1), the standard deduction was increased, some business expenses became entirely tax-deductible, and corporate income tax was reduced from 35 percent to 21.

Any tax plan is bound to sour some people. There are winners and losers, some people saved money, and some wound up even paying more than they used to.

I'd really like to get into more detail about what Trump is offering and how it will affect you, but the truth is the information just isn't out there.

There are projections, but the frustrating thing about Trump is that he just hasn't released how these tax cuts will work, and those projections can be laced with political rhetoric.

If you watched him on 60 Minutes, Kayleigh McEnany handed Leslie Stahl his proposed tax plan. According to her, it was filled with executive orders but no real specifics.

The critical thing to know about the 2017 tax cut is that it was always meant to be temporary. Some of its provisions are already going to expire next year, and the rest will be gone by 2025.

So let's talk about how it affects your paycheck every two weeks, the direct impact, and how it will in the next four years.

As many of you know, a portion of your check goes to the government before it's even-handed to you. Payroll taxes consist of 6.2 percent that go to social security and 6.2 percent for your social security. That's 12.4 percent of what you make.

There's also 2.9 percent that goes to Medicare taxes. Employees and employers pay only up to the first $137,700 they accrue.

Under Trump, he allowed employers to let their employees earning less than $104,000, defer their 6.2 percent payment between September and December.

This essentially means you're getting a bigger paycheck, but you're going to have to pay those taxes back next year.

Some small businesses have said it's just not worth the trouble. The other issue is that Trump hasn't laid out many specifics in terms of how this works.

So you're getting a slightly bigger paycheck that you're eventually going to have to pay for, and you don't know how it's affecting the rest of the country.

What Biden has planned is something we've never seen before. Biden wants to take that 12.4 percent and redirect who it's aimed at – he's targeted incomes over $400,000.

So this truly only affects high-earners like doctors, lawyers – the ones that are really making a lot.

Now, what will change for your income taxes?

Biden also wants to redirect that to the highest paying Americans, too. He wants to put the top income bracket rate back to the Obama-era, set at 39.6 percent. Under Trump, it was lowered to 37.

For now, it appears that's the only tax bracket Biden is going to change. All the others, so far at least, are going to remain the same.

He would also cap the value of itemized deductions. You've seen on your tax form; you have the option of taking the standard deduction or itemized list of things like state tax expenses, charities, medical bills.

Usually, wealthier households opt for the latter. Marketwatch reported that 43 percent of taxpayers making between $50 and $100,000 a year itemize their deductions. For a household earning over $100,000, that number shoots up to 80. So he would cap those deductions at 28 percent.

He also wants to cap the capital gains tax for people making over a million a year by taxing it at the standard tax rate. If you don't know, a capital gain is the money you make off an investment.

So if you invest, it increases in value, and then you sell it, that's a capital gain. Right now, the capital gains tax is for people making over $400,000 a year, where you pay a flat 23.8 percent. If you make less than that, it's 15.8 percent.

So that means someone making a few million dollars a year is paying the same gains tax as someone making considerably less. Still a good chunk of money, but a lot less.

Under the new plan, that is going to change for the millionaire. He's going to pay a whopping 43.4 percent tax rate.

Next, he also wants to increase the corporate tax rate from 21 percent to 28. To give you some background, prior to 2017, the corporate tax rate was at 35 percent, so it's still significantly lower.

He's calling for a maximum of $15,000 credit for first-time homebuyers. This means that they will reduce your tax bill by that amount. And if you don't make enough to pay $15,000 in taxes, they will give you that money.

This is a tax credit for renters and a bigger one for children. Trump doubled the child tax credit to $2,000, Biden wants to double it yet again.

Lastly, let's talk about the area where I usually go. How is this going to affect your retirement plans?

Biden has laid out a plan for older Americans, explaining what he wants to do to overhaul America's retirement system. That includes things like shoring up social security and medicare.

So, those are the significant, glaring changes that are going to go into effect. However, there are some other details of his plan that just haven't been spelled out yet.

Suffice to say, there's talk of proposing flat tax deduction on 401k contributions no matter what your federal tax rate is. But remember, a lot of these tax increases I've mentioned will only go forward if Democrats take control of the Senate.

That remains to be seen as of now.

So those are the biggest changes coming your way, but as much as we'd like to be done with 2020, it's going to take its final piece of the pie in April.

We've got one month left in this year, and there are things you can do now to offset your overall income tax bill come tax time. Some of what I'm going to go through is particular to 2020, under the federal CARES Act that was passed this spring, but there's also some general advice sprinkled in.

Here are five things you can do to lower your tax bill in the next month.

First, be charitable. Not only can it be personally gratifying, but you also stand to deduct quite a bit. Under the CARES Act, taxpayers taking itemized deductions can deduct 100 percent of charitable donations.

Some charities are excluded; for instance, you can't collect deductions from any donor-advised fund.

Again, this is something you can take advantage of this year only. Typically, you can only deduce 60 percent of charitable contributions.

The CARES Act also offers something for those taking the standard deduction – that's $12,400 for singles and double that for couples.

So please be sure to keep track of your gifts and donations, any email confirmations that they received payment because you're going to get more back than usual.

Second, I know you know what this is because I already discussed it before; it might be the perfect time to convert to a Roth IRA.

This is especially important to anyone who is making over $400,000 because that's where all the higher taxes under Biden are headed.

If you lost any income during the pandemic, it's an especially prudent time to consider putting your retirement funds there. Remember, any withdrawals you have to make on a Roth are not taxed.

It's a good idea anytime, but it's taken on new significance with so many people struggling.

Third, this is for people with a side gig. I know a guy with a regular job; he writes articles about movies online. It's worked out well for him so far.

But many people have turned to a second side job in times of crisis, and it's not a bad way to do things. If you have any supplemental income, it's just essential to deduct any business expenses related to it.

This can be things like home office equipment, gas mileage, and in my friend's case, theater tickets when he could still go. Keep those receipts. Many people don't even consider their second job much of a job at all, and they neglect these deductions.

Anything you do related to work is deductible, so always take advantage of it where you can.

Third, stockpile what savings you have.

If you have some money left over this year, consider putting it in some healthcare savings. Health savings accounts are paired with high-deductible insurance plans, and they come with three tax advantages.

First, that money is going to be tax-deductible, and it builds up tax-free. You can use it for qualified medical expenses and avoid any taxes on the withdrawal. And you can also use these funds well into retirement.

Finally, if you have been withholding or haven't made enough tax payments on that side gig, it might be wise to update your withholdings.

Withholding tax means that your employer withholds from their employee's wages and pays the government directly. You can ask your human resources department to increase the amount withheld for your remaining paychecks this year.

Talk to your financial advisor or your tax professional now to fine-tune your withholding. Otherwise, you're going to be subject to penalties and fines.

You still have time to do all these things, and it'd be beneficial to get on it right away. Some of these are exclusive to 2020, and this year has been hard for everyone, so doing everything you can to reduce what you pay is just smart.

Alright, lastly, I promised I'd get to something that's been bugging me, and I'm going to tie it to all of this because it is very relevant. We're talking about the four percent rule.

You may have heard of this before; it's probably been floated to you as sound advice. Well, I respectfully disagree.

The four percent rule is a plan for retirement that sounds simple enough. Basically, you take all your investments in your first year of retirement and then withdraw four percent of them.

The idea behind this supposed wisdom is that it's a method of withdrawing from your retirement without depleting it too early. This may have worked back when inflation rates were different, but you can't expect to do it now and expect it to last for 30 years.

And that's the other thing that makes this a bit of a current event; 60 Minutes just ran a piece about how more and more retirees live well past 90, even 100 so that 30 years is looking more realistic.

This is an older method, meant for a different time. Let's take a look at the present day. Currently, the interest rates are pretty low – they're projected at .25 percent at the end of the quarter. By the way, that projection is expected to continue for the next year.

Even in 2011, when interest rates were at 2 percent, how can you expect to withdraw 4 percent of your investments?

With Biden assuming power, we're starting to get the first look at many personnel appointees for the first time. It's been a lot of old cronies so far – and I say that reserving judgment, but we've seen these people before. Kevin Spacey played Ron Klain.

But it's doubtful that any of his immediate actions, the ones he can get through if he doesn't have control of the Senate, will change these interest rate projections.

So what are the alternatives? A lot of retirees are going to have trouble living comfortably if they're not withdrawing more than three percent.

Well, you can continue to work for a few years, an option that no one looking to retire wants, but it does seem to be happening more and more. And that makes it harder for younger generations.

You can invest your savings differently, perhaps taking more risks and getting aggressive, but again, highlight the word "risk."

In some cases, retirees live within their means for the first few years to have a better quality of life later. You could, say, withdraw 3.25 percent at 65, then four at 80.

But none of those sound that appealing do they? One option is the magic number. CNBC reporter Tom Anderson coined this, and it doesn't deal in percentages.

With interest rates being the way they are, I don't think percentages are the way of the future. The magic number is what you need to have to retire, and you can calculate it pretty quickly.

The magic number comprises what you need to retire comfortably – in other words, it's just the amount you'd need for those 30 years. So once you figure out what it is, based on what you're making, that's something to aspire to.

If you're already a retiree, there has been evidence that reducing what you invest to 20 or 30 percent will also generate a steady, comfortable growth – which is probably the exact opposite of what you've been told.

The common wisdom states that the more you invest, the more you stand to get back. But that doesn't account for any risk in the market.

In the next four years, we really don't know what will happen yet to the economy. The good news is that it's unlikely to have a lot of immediate impact on your retirement.

The bad news is that things aren't great right now, so it's not like a return to greatness - more a status quo.

Okay, that just about does it for me. Thank you for watching. I hope you enjoyed yourself and learned a thing or two about the state of the union.

If you did, go right ahead and smash that like button, subscribe for more, and click that notification bell to stay updated as I upload. I post at least once a week, if not more. Stay safe out there, and see you next time.

ref1: see picture.
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