Joe Biden and Your 401(k)

V.P. Biden's tax plan could affect your IRA/401(k) retirement savings

Changes on the horizon? Your "investor's CPA" can help manage your year-end investment/tax planning regardless of the election outcome

Part 1 of 3

> A Biden tax plan could mean substantial changes for investors, potentially forcing you to pay more taxes.

November 3rd, and the U.S. Presidential Election, draws nearer each day. It's a good time to review the challenger's tax plan. My clients are asking about the Biden Tax Plan and how it will directly affect their retirement savings. I'll share my understanding of the plan, and implications for your financial planning.

Investment professionals are prevented from dispensing tax advice. If you want to understand the whole picture, from your investment returns to their impact at tax time, you really need "an investor's CPA" on your team. If you are concerned about how the Biden Tax Plan might alter your strategy, give me a call <<hyperlink>> to discuss your options today.

Flat Tax Credit

Biden's proposed flat tax credit is a tool that will hurt high earners, while helping those in lower tax brackets. The tax benefits of retirement contributions would be equalized among the income classes.

Currently, taxpayers see a benefit for contributions to a qualified plan, based on their marginal tax bracket. That is, if Mary is in the top marginal bracket of 37%, her $10,000 contribution earns her a $3,700 tax benefit. But if John is in the 10% bracket, and makes the same $10,000 contribution, he only gets a $1,000 tax benefit. High earners have the stronger incentive to contribute to retirement.

Under Biden's plan for a flat retirement contribution credit, this tiered incentive goes away. A specific percentage (estimated today as a 26% tax credit) would apply for all parties regardless of income level.

Losing Money Under Flat Tax Credit

Consider a client earning $200,000 and in the 32% tax bracket. If she were to contribute 10% of her income – that's $20,000 – under current tax law, she would see a savings of $6,400. That's a great reward for her significant savings effort.

Under the Biden proposal, socking away the same $20,000 would generate a flat tax credit of $5,200. Our investor would save $1,200 less than under current regulations.

Insight into the Roth IRA/401(k) for High Earners

Much has been published about the advantages of the Roth IRA/401(k) in terms of tax management. Unlike a traditional IRA/401(k), investors pay the tax in the year in which the contribution is made. The advantage, down the line, is that distributions are taken tax-free.

A caution for high-earners: Keep in mind that later in life, the high-earners will likely drop into lower tax brackets. In retirement, income falls away. That is, married filing jointly couples may find themselves in tax rate brackets of 22%, 24%, or 32%.

It may be more advantageous to pay taxes at distribution in a new lower tax bracket, than it is to pay tax rates of 35% and 37% today, as a high wage earner.

For mid- to low earners, the current interest in Roth instruments is justified. But for many of my clients, there may be financial incentives to staying the course with traditional IRA/401(k) plans.

Next time: Are Capital Gains Taxes on the Rise?

Year-End Planning Strategy

Political upheaval? Life events? As things change in our lives, it's prudent to examine how they affect our financial planning. Investment reps focus on helping you to achieve impressive returns and yields. But what is often overlooked are the tax ramifications of the financial plan.

In more than 20 years as a Knoxville-area CPA, I've helped hundreds of clients get the most at tax time. Working with individual investors, exclusive of the concerns of their commercial business, allows both parties to truly focus on what is best for the investor, and his/her family. Concerned about year-end tax planning? Schedule an appointment today<<link>>.

Let's Talk

Serving the East Tennessee area, Andy Ellis is your personal "investor's CPA." Let's talk about your unique situation: schedule an appointment with Andrew B. Ellis, CPA, CFP, CFA Financial Advisor by calling (865) 344-2965 or contact us [hyperlink: https://www.knoxvillecpa.com/contact-us]

# # #

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Joe Biden and Your Capital Gains Taxes

V.P. Biden's tax plan may eliminate favorable capital gains rates

Estate planning changes are on the drawing board. Now is the best time to work with your "investor's CPA" to maximize planned giving.

Part 2 of 3

Tick…tick…tick… Election Day grows closer by the second! We want to take a proactive look at how a proposed Biden Tax Plan might affect individual investors. In my previous article <<<link>>> we saw how a flat tax approach could influence retirement investing. And I shared some thoughts on Roth investments for high earners.

> Regardless of who occupies the White House, you are an active investor, concerned with minimizing the taxes paid. Let us help with your tax planning.

In this installment, let's examine proposed changes to capital gains and tax law.

Long-Term Capital Gain, Investment Income Taxes to Go Up

Long-term capital gains and qualified dividends could be taxed at nearly double the current rates. Under Biden's plan, taxpayers would pay the same rate on investment income as they do on wages. High wage earners would see capital gains taxed at 39.6 %, a significant jump from the current 20% capital gains rate. This would apply to those earning $1 million or more should legislation pass.

It's important to note that capital gains (or losses) are only realized when an asset is sold. Capital gains figure prominently in gifting strategies and estate planning discussions.

Tax Management Tools

Each portfolio and financial plan is unique, but in general, these are strategies in our tax management tool kit:

- Planned sale of investments/assets to maintain position in lower tax brackets
- Managing for lower annual capital gains
- Reducing position in investments that generate dividends
- Scheduling the gifting of assets during the owner's lifetime
- Use of annuity trusts
- Planned conversion of traditional IRA/401(k) investments to a Roth IRA

As “the investor’s CPA” these are tools that I use every day. In this changing financial climate, it is more important than ever for investors with a 7-digit portfolio to work closely with a tax-focused CPA in order to help preserve wealth.

Next time: Gifting and Estate Planning Changes Could Penalize Your Survivors

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Joe Biden and your Estate Plan

V.P. Biden’s tax plan would affect gifting, and the money your heirs might not see

Regardless of who occupies the White House, it’s an essential time to partner with “the investor’s CPA”

Part 3 of 3

> Under a proposed plan, changes to the estate tax could mean high-dollar penalties for you or your heirs.

With the election for president now just days away, I want to share one of my largest concerns about the Biden Tax Plan.

In my first article <<<link>>> we saw how a flat tax approach could impact retirement investing. I also shared a caution about the current appeal of Roth plans.

In my last article <<link>> we discussed how capital gains taxes could escalate quickly, and the tools “the investor’s CPA” can use to lessen the consequences.

In this installment, let’s examine proposed changes to tax law regarding gifting and estate planning.

Step-Up in Basis Rules May be Walloped

A step-up in basis allows readjustment of the value of an asset to full fair market value upon inheritance. The rule today benefits all heirs: assuming a property or asset has appreciated in value since purchase, the heir sees no capital gains tax. Should the heir sell the asset or property, the taxable gain is limited to its increase in value over the stepped-up basis.

The Lodge on the Lake

Let’s look at a tangible example: Henry owns a spectacular lodge on the lake. He explores selling the lodge in his later years, planning to gift the proceeds to his children. Should he do this, Henry would pay capital gain taxes on the sale, calculated on the substantially increased value of the home since his initial purchase 40 years ago.

Our advice is to hold off on any sale and to pass the property to his heirs. Upon Henry’s death, the lodge becomes the property of his son, Geoff. Geoff has more options: He can hold onto the property, for his use, or the use of others. Should he sell it, Geoff would pay zero or minimal capital gains taxes, based on any value change from the time of inheritance to the time of sale.

The Biden Plan would repeal key step-up in basis regulations. Heirs of all income levels could see significant and possibly challenging tax bills on inherited assets.

Another Gifting Consideration

Well-meaning investors can be surprised at the taxable differences between traditional investments and qualified retirement accounts. The Traditional IRA/401(k) account ensures that distributions are taxed in the year taken, regardless of whether that distribution is taken by the account holder or the heir. Step-up in basis rules do not apply.

Compare that scenario to your traditional investment account, perhaps populated with some low dividend paying stocks. At time of inheritance, no tax schedule would kick in. Under today's regulations, step-up in basis rules would apply. Regardless of the series of investments made within the account, and their history over time, at the time of the investor's death, the value of the account will transfer to the heir at its current value.

Overwhelmed? Call me, your "investor's CPA." The ever-changing U.S. tax code is a full-time study for me. I work relentlessly to manage the taxes my clients (and their heirs) pay the government. I would welcome the opportunity to talk with you about your financial plan, and ways in which we can help you to keep more of your hard-earned money.

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