



# TaxNewsFlash

United States



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## President Biden announces American Families Plan, individual tax proposals

The White House today released a fact sheet describing President Biden's "American Families Plan" in advance of the president's speech to a joint session of Congress this evening.

As described by the [fact sheet](#) [PDF 229 KB] the American Families Plan is intended to be an investment in children, families, and U.S. workers. According to the fact sheet, the American Families Plan includes approximately \$1 trillion in investments and \$800 billion in tax credits for American families and children over 10 years of age.

The fact sheet states that "alongside" the American Families Plan, the president will be proposing a set of measures to "make sure that the wealthiest Americans pay their share in taxes, while ensuring that no one making \$400,000 per year or less will see their taxes go up." It further indicates that these "tax reforms" would raise about \$1.5 trillion "across the decade." According to the fact sheet, the combined costs of the American Families Plan and the infrastructure plan the president previously proposed (the "American Jobs Plan") would be fully offset over 15 years and the deficit would be reduced over the long term.

### Tax credits

According to the fact sheet, the American Families Plan would extend "key tax cuts" in the recently enacted "American Rescue Plan of 2021" (Pub. L. No. 117-2) that benefit lower- and middle-income families and workers, including:

- Extending the expansion of the Child Tax Credit to certain children through 2025 and making the credit fully refundable on a permanent basis
- Making permanent the expansions made to the Child and Dependent Care Tax Credit
- Making permanent the expansions made to the Earned Income Tax Credit for childless workers
- Extending the expanded ACA premium tax credits

## Oversight of tax preparers

The fact sheet indicates that the president is calling on Congress to give the IRS authority to regulate tax preparers given that preparers play a crucial role in tax administration and will be key to helping some taxpayers claim the newly expanded credits.

## Revenue offsets and other “reforms”

The fact sheet indicates that the president’s tax agenda would:

- “reform the tax code so that the wealthy have to play by the same rules as everyone else”
- “ensure that high-income Americans pay the tax they owe under the law,” and
- eliminate “long-standing loopholes, including lower taxes on capital gains and dividends for the wealthy that reward wealth over work”

The resulting revenue would be used to rebuild the middle class, invest in education, and boost wages.

The fact sheet references the following proposed changes:

- Increasing the top individual income tax rate to 39.6%
- Increasing the tax rate for capital gains and qualified dividends to 39.6% for households making over \$1 million
- Ending the “step up” of basis at death for gains in excess of \$1 million (\$2.5 million per couple “when combined with existing real estate exemptions”) and “making sure the gains are taxed if the property is not donated to charity” – with protections so that family-owned businesses and farms will not have to pay taxes when given to heirs who continue to run the business
- Permanently closing the carried interest “loophole” as a structural matter (notwithstanding that equalizing tax rates on wages and capital gains would address the rate disparity)
- Ending the rules that allow real estate investors to defer tax when they exchange property (presumably the real estate like-kind exchange rules) for gains greater than \$500,000
- Permanently extending the current limitation on large, excess business losses
- Applying the 3.8% Medicare tax “consistently to those making over \$400,000” (possibly referring to changing the application of the net investment income tax to active owners of passthrough entities or to eliminating the provision exempting limited partners from liability for the self-employment tax—or to both)
- Requiring financial institutions to report information on account flows so that earnings from investments and business activities are subject to reporting more like wages
- Providing additional resources to the IRS, including for enforcement with respect to those with the highest incomes (including not only individuals, but also large corporations, businesses, and estates) (read a related [Treasury Department release](#))

## Non-tax programs

The American Families Plan proposes a variety of spending programs, including:

- Providing universal pre-school to three-year olds and four-year olds

- Providing two years of free community college
- Making college more affordable for low- and middle-income students
- Improving teacher training and support
- Providing direct support to certain families so that they spend no more than 7% of their income on child care
- Creating a national comprehensive paid family and medical leave program
- Providing nutrition assistance to certain families; and expanding access to healthy meals to students

### **KPMG observation**

The descriptions in the fact sheet are very high level and do not include technical detail or effective dates. More detail on the Biden Administration's proposal can be expected in the Treasury Department's description of tax proposals in the budget (the "Greenbook") which is expected by late May or early June 2021.

The Biden Administration might also announce additional tax proposals as the process moves forward (including in the Treasury Greenbook). For example, several tax changes proposed by the president during the campaign have not been included in today's release and might be included in the Greenbook. Further, Congress can be expected to add, drop, and modify proposals as it considers legislation implementing the plan. Congressional leadership, as one example, has indicated an interest in revisiting the limit on the deduction for state and local taxes.

As indicated in previous KPMG reports (including [The Biden Administration and the 117<sup>th</sup> Congress: Possible Tax Legislation](#)), the narrow margin of Democratic control in the Congress presents legislative challenges and may affect the prospects, process, and details of this proposed legislation.

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