

Capital Gains Tax Hike a Possibility

Written by Rob Copeland

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The 2020 elections are just about two months away, and if the 2016 contest taught us anything, it's that predictions are a fool's game.

But for now, the polls are showing that a Democratic sweep — where they retake the White House and Senate while keeping control of the House of Representatives — is at least a possibility.

So investors should be aware of what could be in store under a Democratic government. In particular, tax reform is a major part of Democratic presidential nominee Joe Biden's plans. And one of his most ambitious proposals involves raising the long-term capital gains tax rate for households earning capital gains above \$1 million per year.

Long-term capital gains — the sale proceeds from stocks, bonds, mutual funds, real estate and other investments that are owned for more than a year — are taxed at a special rate. For married couples with total income above \$80,000 and below \$496,600, the current rate is 15%. For couples with income above that level, the rate is 20%.

Biden's plan calls for increasing capital gains rates to the same rate as ordinary income for households with income above \$1 million. Those households' capital gains rate would rise from 20% to 39.6%.

Remember that Democrats would need a clean sweep in the November elections to implement Biden's plans. Whether that will happen is unknowable. The important thing for investors is to plan for the possibility. Should power change hands in Washington, steps such as selling highly appreciated shares might be appropriate.

It's also quite possible that we will end up with divided government, where neither Democrats nor Republicans control all three branches of government. In that scenario, we'd likely see the status quo prevail, with neither party able to pass new significant tax changes into law.

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In addition to increasing capital gains taxes, Biden would target the top 1% of earners, with a higher income-tax rate. Specifically, taxes on ordinary income above \$400,000 would return to the Obama-era 39.6% rate, which was lowered to 37% early in Donald Trump's presidency. Biden has also proposed an increase in the payroll tax to income above \$400,000, in order to shore up the Social Security system.

President Trump has been more vague about his tax agenda for a second term; he's spoken about keeping more of workers' pay in their pockets, for instance. But he hasn't offered the level of detail that Biden has.

As a financial advisor, it's not my place to tell you who to vote for. But I am advising my clients to be prepared for the different eventualities that could lie ahead, and to be prepared to make money moves to suit your situation. If you'd like to discuss your investments, please don't hesitate to reach out to us.