

Will Biden Double the Capital Gains Rate?

Written by Rob Copeland
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New tax legislation is taking shape in Washington, and business owners, farmers and wealthy investors have been paying close attention to reports that the long-term capital gains tax rate could be essentially doubled.

Such a tax hike is part of President Biden's plan to raise trillions of dollars of revenue to fund multi-trillion-dollar infrastructure and social programs. The proposed capital gains increase has garnered lots of headlines and caused a fair amount of angst among those who might be affected. But I suspect there is not very much to fear.

Biden reportedly wants to raise the top individual income tax rate and the corporate tax rate, in addition to the rate paid on capital gains. He has said on multiple occasions that his increases on individuals would only affect Americans earning more than \$400,000 per year.

In terms of the income tax, Biden wants to raise the top rate from 37%, where it stands now, to 39.6%. He also wants to lower the floor of the top income bracket. Under his plan, a married couple filing jointly would pay the top rate on income over \$509,300; currently the threshold is \$628,300.

The rate on earned income matters to investors because Biden wants to start taxing capital gains at the same. His plan calls for raising the current 20% rate on capital gains to 39.6%--but only for households with income exceeding \$1 million in a given year. The 3.8% Medicare surtax on investment earnings would continue to apply, pushing the top rate to 43.4%.

Here's why I don't think this scenario will become reality. First of all, Democratic and Republican lawmakers alike have wealthy constituents and political donors, and are loathe to bite the hand that feeds. Furthermore, capital gains taxes apply to farms and family businesses as well as to investment gains—and it doesn't look good for politicians to soak farmers and family businesses.

Biden, who spent 36 years in the Senate before spending eight more as Vice President, is the definition of a savvy politician. I believe he sees the capital gains proposal as negotiating leverage, and that he will trade it away in order to secure concessions from Republicans and

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conservative Democrats on the scope and price tag of his infrastructure legislation. Even if the capital-gains hike does survive the legislative sausage making, it's likely that it would be significantly watered down.

Right now lots of investors are contemplating selling their appreciated stock earlier than planned in order to lock in the current 20% capital gains rate. But my advice is to avoid making major changes based on something that might not happen. As always, please don't hesitate to get in touch with us if you'd like to discuss your investments.