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WITH UNIFIED GOVERNMENT, TAX CHANGES LIKELY

With a Democrat-controlled Senate, the odds of further fiscal stimulus have gone up along with the likelihood of several changes to tax policy. Additional stimulus from here will continue to focus on pandemic relief and income replacement, but will also begin to build out more structural, long-term changes to our economy favored by the Biden administration. Although some deficit spending will occur, the combined stimulus effort will likely lead to tax increases.

Here are some of the key potential tax changes we could see during a Biden administration:

- **Top marginal income tax rate increased to 39.6% from 37.0%.** The lowest-hanging fruit of increases, although President-elect Biden has limited how much money it would raise by restricting it to incomes greater than $400k.
- **Income tax deductions lowered to 28% for high income taxpayers.** This Obama-era proposal seems likely, although to become law it would probably need an exemption for charitable and mortgage deductions.
- **State and Local Tax (SALT) deduction reinstated.** In 2017, Congress restricted the taxpayer deduction of state and local taxes to just $10,000. Reinstating the SALT deduction would overwhelmingly benefit high-income taxpayers but is a top priority of Democratic legislators from high-tax states facing waves of out-migration. This likely occurs at a 28% deduction (see above) rather than the full deduction.
- **Estate tax changes will be proposed, but the legislative math is difficult.** Biden has proposed hiking the estate tax rate, cutting the estate tax exemption in half, shifting from a step-up basis to a carryover basis, and imposing an unrealized capital gains tax on the heir upon asset transfer. We take these four proposals seriously, especially given the focus on income inequality, but the legislative realities of a 50-50 Senate will make passage difficult.
- **Capital gains and dividend rate increased to between 25% and 28%.** Given the focus on income inequality and the difference between wage and investment income, an increase here is likely. Though Biden likely wants to go higher, the political realities of a 50-50 Senate suggest the rate could fall in the range of 25-28%.
- **Corporate tax rate increased to ~25% from 21%, likely starting in 2022.** Though Biden proposed a 28% rate, our projection settles at ~25% due to Senate dynamics. We estimate this would be a ~$40 billion tax increase on corporate income annually. Our guess is that the increase will not take effect until 2022, but that will depend on when Congress gets the legislation completed—and on the current US economic environment.
- **Corporate rate hikes on foreign source revenue.** An increase in the corporate rate will automatically trigger an increase in tax rates on intangible income of US multinationals. Still, Biden has specifically proposed doubling this tax rate to 21.0% from 10.5% and that could have significant implications for technology and biotech firms.

Of course, our list is a moving target. The economic environment and pace of reopening will ultimately determine the path of fiscal policy and we will keep an eye on developments as events unfold. No matter which changes come, the Baird team includes tax-planning strategists who can work with you and your Baird Financial Advisor to determine your best plan.

More from bairdwealth.com on the financial implications of President-elect Biden's policy aspirations

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