FIFTH THIRD PRIVATE BANK

2020 End of Year Tax Guide
Election Year Impact

The upcoming November 2020 election is a big one, for many reasons. Beyond political ramifications, there's also the question of taxes: How will they be affected? Although there's no way to know for sure how things will go, experts have predictions.

Scenario: Democrats win the presidency and both Houses of Congress
This would likely be the most impactful scenario—since Democrats have suggested a number of changes that would result in higher taxes for some income groups. Biden has proposed raising taxes for earners with incomes over $400,000, boosting the top ordinary income tax rate to 39.6% from its current 37%. Earnings over $400,000 would also be subject to Social Security payroll tax, which currently only applies to wages up to $137,700.

Democrats have also proposed tweaking treatment of long-term capital gains. Gains on assets held for more than one year are currently taxed at just 20% for single households with more than $441,451 in taxable income and $496,601 for marrieds filing jointly, but Biden proposes taxing them ordinary income rates for households with income over $1 million.

Some fear the federal estate tax exemption—currently at $11.58 million for single tax filers and $23.16 million for marrieds filing jointly—may be returned to pre-Tax Cuts and Jobs Act levels.

Last, Biden has proposed ending the "step-up basis" valuation of inherited assets. Currently, if someone holds an asset that appreciates over time, and then they pass it to an heir, the basis increases (or "steps up") to the present market value at the time of the owner's death. Biden has proposed taxing the unrealized gains when an heir receives the asset. Note: There is the ability to do an alternate date for the step-up basis, six months after the date of death. Reach out to your advisor for more information.

Scenario: Republicans retain the presidency and win both Houses of Congress.
Even if Republicans sweep the November election, it's hard to know how far they'll go down the path of tax cuts, since the Tax Cuts and Jobs Act of 2017 already reduced taxes and doubled the federal estate tax exemption. Plus, the country is in the midst of a pandemic. If Trump completely dismantles the Affordable Care Act, that would mean the dissolution of the net investment income tax and the additional Medicare tax, which affects higher-income earners. Other changes are possible, depending on what happens with the COVID-19 epidemic.

Scenario: The Presidency and Houses are split.
In the event that one party wins the presidency but not both House of Congress, forecasts are mixed, and the end result depends on who's in power and what kind of majority the parties have in each body of Congress. It's tough to get legislation passed with opposing forces in Congress. And the path of the pandemic may significantly affect future changes to tax law and treatment.

What should you consider?
It's widely agreed on that taxes are likely going to go up after the November election in all scenarios, one way or another. If Democrats win, they plan to institute changes that will increase capital gains taxes, eliminate the "step-up" basis, and shrink the federal estate tax exemption. If Republicans win, the tax cuts in the Tax Cuts and Jobs Act of 2017 will sunset at the end of 2025 without further legislation. In all cases, the country has to pay for stimulus bills and loan forgiveness programs.

In other words, the current pre-election environment is favorable to many types of wealth transfer, due to low-interest rates, high estate tax and gift tax exemptions and lower tax rates for many. It would benefit clients to be proactive about wealth transfer plans. Reach out to your advisor for sound strategies and advice.