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2020 Tax Comparison

Trump vs. Biden: Face-Off on Federal Tax Issues

As of September 24, 2020

PRESIDENTAL 2020 ELECTION

Overview

Two things are certain in life: death and taxes. So, it makes sense that federal taxes are a political hot button during a presidential election year.

Should you defer taxable income — or take the hit in the current tax year? When is the right time for a business to invest in capital projects — or for an individual to gift cash or assets to family members? The candidates' proposals could affect these types of tax-planning decisions for 2020 and beyond.

Here's what we know so far about the candidates' current positions on major federal tax issues.

Individual Tax – Tax Rates

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
The TCJA temporarily lowered most individual income tax rates and revised the thresholds for each bracket. Currently, the highest marginal effective federal income tax rate is 37%. For 2020, the maximum rate applies to taxable income levels above $518,400 for single people and $622,050 for married people who file joint returns. The current federal income tax rates for individuals will expire after 2025, unless Congress extends them.	Generally supports the GOP-sponsored TCJA tax law changes. Preserves the current federal income tax rate rules and extend them beyond 2025.	Supports increasing the top individual rate on ordinary income and net short-term capital gains back to 39.6%. (He opposes tax increases for people who make under $400,000).

Individual Tax – Capital Gains Tax

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
Today, the top long-term capital gains tax rate is 20%. Some taxpayers also may owe the 3.8% net investment income tax (NIIT) on long-term capital gains. Short-term capital gains (for investments held for 12 months or less), nonqualified dividends and taxable interest income are taxed at ordinary-income tax rates as high as 37%. You also may owe the 3.8% NIIT on net short-term capital gains.	Lowers the top long-term capital gains tax rate to 15% and create a nonspecific tax cut for middle-class taxpayers.	Net long-term gains to be taxed at 39.6% for individuals with incomes above $1 million. Long and short-term capital gains also would be subject to the 3.8% NIIT under Biden's plan.

Individual Tax – Child and Dependent Care Credits

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
The TCJA doubled the child tax credit to $2,000 for each eligible child and created a $500 credit for other qualified dependents. In addition, under current law, eligible families may claim a tax credit of up to $1,050 to cover child-care costs for a qualifying dependent (or up to $2,100 for expenses to care for two or more qualifying dependents). The credit is subject to income limitations that can lower the credit to $600 or $1,200 for two or more qualifying dependents.	Preserves the current federal child and dependent tax credits and extends them beyond 2025. (no plans to revise the current credit for child-care costs yet).	Doesn't address the current child tax credit, which is scheduled to expire in 2026. However, he would like to increase the allowable expense threshold for the credit for child- and dependent-care costs from $3,000 to $4,000 for one qualifying child or dependent (or from $6,000 to $8,000 for two or more qualifying children or dependents) with phase-outs for families making between $125,000 and $400,000. He also plans to introduce a new credit of up to $5,000 for "informal" caregivers.

Individual Tax – Itemized Deductions

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
The TCJA eliminated AGI-based phase-outs for itemized deductions. However, some itemized deductions have been limited or suspended through 2025. For example, current law limits certain home-related itemized deductions and suspended miscellaneous itemized deductions subject to the 2% of AGI floor. The TCJA also essentially doubled the standard deduction, which has reduced the number of taxpayers who itemize.	Preserves the current federal tax rules for itemized and standard deductions (would like to extend these beyond 2025).	Reinstates the limit on itemized deductions for higher-income taxpayers. He also supports limiting the tax benefit of itemized deductions to 28% for upper-income individuals. This change could adversely affect taxpayers in higher tax brackets who itemize deductions on their federal returns.

Individual Tax – Tax breaks for homeowners

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump’s Plan	Democratic presidential nominee Joe Biden’s Plan
Itemized deductions for mortgage interest expense, home equity loan interest and state and local taxes (SALT) are subject to tighter limits through 2025.	Preserves the current limits on mortgage interest, home equity interest and SALT and extend them beyond 2025.	Eliminates the $10,000 limit on itemized SALT deductions and introduces a refundable tax credit of up to $15,000 for eligible first-time homebuyers at the time of purchase. He’s also calling for a new refundable tax credit for low-income renters that would limit rent and utility payments to 30% of monthly income.

Individual Tax – Gift and Estate Taxes

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Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
For 2018 through 2025, the unified federal gift and estate tax exemption has been increased from $5 million to $10 million, indexed for inflation. The inflation-adjusted unified exemption is $11.58 million or $23.16 million for married couples for 2020. Plus, the IRS issued "clawback" guidance, which confirms that large gifts made under current law won't lose the tax benefit of the higher exclusion level once it decreases. In addition, heirs receive a "step-up" in basis when they inherit assets under current law. The stepped-up basis of an asset equals its fair market value as of the date of the decedent's death or an alternate date of six months after the date of death. This rule can significantly lower the capital gains tax hit when inherited assets are sold.	Preserves the current federal gift and estate tax rules and extend them beyond 2025.	Eliminates the basis step-up rules. It's also likely that Biden would support repealing the TCJA's expanded unified federal gift and estate tax exemption *before* it's scheduled to expire in 2026.

Business Tax – Corporate Rates

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
The federal income tax rate for profitable C corporations and personal service corporations is a flat 21%.	Generally supports the GOP-sponsored TCJA tax law changes. Would like to *expand* corporate tax cuts if he's elected to a second term. For example, he would like to create a new "Made in America" tax credit to encourage domestic production.	Would like to *increase* the federal income tax rate from 21% to 28% for profitable C corporations. Introduces an additional 10% "offshoring penalty surtax" on profits for goods and services produced overseas and sold back to the U.S. Biden has also proposed his own "Made in America" tax credit to encourage domestic production.

Business Tax – QBI Deduction

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
New deduction based on a non-corporate owner's qualified business income, or QBI. The break, which generally equals to 20% of QBI, is available to eligible estates, trusts and individuals for 2018 through 2025. The purpose of the QBI deduction is to help level the playing field between C corporations and pass-through entities, including sole proprietorships, partnerships, limited liability companies (LLCs) and S corporations.	No changes to simplify or expand the complicated QBI deduction. But the White House budget for fiscal year 2021 (which starts on October 1) would provide an extension of this break beyond 2025, when it's scheduled to expire.	Proposes expanding and simplifying the QBI deduction for profitable pass-through entities that aren't involved in rental real estate activities. In general, his plan would limit QBI deductions for individuals earning more than $400,000 a year. And he supports *eliminating* QBI deductions for profitable rental real estate activities.

Business Tax – Real Estate Breaks

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Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
The TCJA included many *favorable* changes for real estate investors, including reduced tax rates and shorter recovery periods for certain types of qualified improvement property (QIP). However, it also imposes *unfavorable* limits on business interest deductions and net operating losses (NOLs) for certain entities. In 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act corrected a TCJA drafting error related to first-year tax breaks for real estate QIP. The law also temporarily expanded business interest deductions and liberalized the rules for net operating losses (NOLs). Many real estate entities will benefit from these changes.	So far, he hasn't proposed any changes to the TCJA provisions affecting real estate entities — except that he would like to expand the existing Opportunity Zone program. This program uses capital gains tax breaks to encourage businesses and individuals to invest in economically distressed communities. In addition, he hasn't yet provided any indication whether his plan would extend the CARES Act relief for business interest deductions and NOLs beyond 2020.	His plan would close certain tax loopholes for real estate entities. In addition to targeting the QBI deduction on rental income (above), he would like to eliminate like-kind exchanges on real property and the $25,000 exemption from the passive loss rules for rental real estate losses incurred by middle-income individuals. He also proposes to increase the depreciable life of rental real estate and to reform the Opportunity Zone program to provide more oversight and transparency and to enhance community benefits from the program.

Business Tax – Corporate AMT & Payroll Tax Cuts

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
The TCJA permanently repealed the 20% corporate alternative minimum tax (AMT).	Preserves the elimination of the AMT under current tax law.	Favors a new 15% minimum tax on corporations with at least $100 million in annual income that pay little or no federal income tax under current tax law. Under Biden's plan, such corporations would pay the greater of 1) 15% of reported book net income, or 2) the company's regular federal income tax bill.
Employers and employees each must pay the Social Security portion of FICA tax at a rate of 6.2% on amounts up to the annual inflation-adjusted "wage base," plus the Medicare portion of FICA tax at a rate of 1.45% on all of employee wages. The inflation-adjusted wage base is $137,700 for 2020. Self-employed individuals effectively pay both the employee and the employer shares of the FICA tax for a combined tax rate of 15.3%. The same wage-base rules apply to the Social Security portion of FICA tax for self-employed individuals.	Supports *permanent* cuts to federal payroll taxes, though he hasn't provided any details — or explained how he would fund Social Security benefits. His plan would also forgive any federal payroll taxes that were temporarily deferred for September 1, 2020, through December 31, 2020, by his August 8 executive memorandum.	Would like to create a "donut-hole" provision to the FICA tax rules. Under this provision, the 12.4% Social Security portion of the FICA tax would *restart* on wages and net self-employment income above $400,000.

Business Tax – International Tax & Green Tax Breaks

Current Tax Law (TCJA)	Republican presidential nominee Donald Trump's Plan	Democratic presidential nominee Joe Biden's Plan
In general, the TCJA included provisions to discourage companies from shifting income to lower-tax countries and encourage companies to repatriate foreign operations and assets back to the United States.	His plan would further promote domestic production. For example, he would like to create a new tax credit for companies that bring back jobs from China and allow 100% first-year expensing for pharmaceutical and robotics manufacturers that return to the United States.	His plan also supports domestic production. He would like to double the minimum global intangible low tax income (GILTI) rate from 10.5% to 21%. Biden also proposes to eliminate offshore tax loopholes from the TCJA that permit U.S. companies to shield their foreign profits from full taxation.
Congress sometimes uses tax laws to promote socially responsible behaviors. The TCJA doesn't provide any specific provisions to promote clean energy production or reduction of carbon emissions — but it didn't repeal any "green" tax breaks.	He has no specific plans to add or expand any existing green tax breaks. Instead, Trump favors preserving deductions for oil and gas drilling activities that facilitate American energy independence.	His plan calls for reinstating or expanding Obama-era green tax breaks. Examples include now-expired credits for buying electric or hybrid vehicles and deductions for emission-reducing investments in residential and commercial buildings. Biden would also like to repeal tax deductions for oil and gas drilling costs and depletion.

Stay Tuned

Election Day is officially on November 3rd. But many people are planning to vote early — in person or through the mail. Taxes are a major issue to consider before casting your vote.

When reviewing the candidate's preliminary plans, it's important to remember that, while a president may encourage federal tax law changes, no president can implement his or her proposals alone. Moreover, in these volatile times, a candidate's position may change, depending on market conditions and other factors. Whether or not these proposals become law also depends on who's elected to Congress.

Rest assured, our team of global tax specialists is monitoring the candidates' positions to provide our clients with the best possible tax planning advice for the coming year. Contact us for more information.

Contact our tax team to set up a meeting to brainstorm financial planning strategies to help you and your business.

MEET THE AUTHORS

Ms. Laura H. Yalanis, CPA, MST is a Partner and Director of Tax Services at KLR. Laura joined the firm in 2005 and specializes in tax advisory services for a wide variety of business and individual clients. While her expertise lies in hospitality, construction and tax accounting, Laura is equipped to help clients with a wide range of tax planning techniques.

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