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How the 2020 presidential candidates propose to tax affluent individuals

The November 3 general election is still months away, but the ballot for the presidential race is for all intents and purposes now set: former Vice President Joe Biden is expected to officially become the Democratic party's standard-bearer at its convention in August, and President Donald Trump is the presumptive Republican nominee.

Although the economic impact of the COVID-19 pandemic is likely to dominate fiscal policy debate this election cycle, one of the issues implicitly on the ballot this year is the fate of President Trump's signature TCJA, which, among other things, lowered the tax burden for many individuals, estates, and passthrough entities. For budgetary and procedural reasons, these provisions in the TCJA as enacted are scheduled to expire at the end of 2025.

Former Vice President Biden contends that the TCJA benefits are skewed to more affluent taxpayers and has offered policy proposals to address that perceived imbalance. President Trump, on the other hand, is making the case that the the TCJA's temporary tax cuts were necessary to fuel economic growth and should be made permanent—and, in some cases, even expanded.

Our aim here is to provide a high-level discussion of how the two candidates' proposals would work, along with a side-by-side comparison of where they stand on certain key tax issues.

There are a few significant caveats worth keeping in mind. First, very little detail is currently available on any of the proposals that either candidate has put forward so far. Additional details may emerge during the campaign, and their tax plans could change over time. We will update this discussion periodically as significant new details emerge.

It's also important to note that tax legislation originates with Congress, not the White House, so any new tax laws enacted will necessarily also carry the imprimatur of the legislative branch with its many competing interests and priorities.

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The candidates: Biden vs. Trump

Biden: Broadening the base

Former Vice President Biden is campaigning on the premise that the income tax system needs to be retooled to ensure that high net worth individuals are paying "their fair share." But unlike some of his former rivals for the Democratic presidential nomination—most notably, Vermont Sen. Bernie Sanders and Massachusetts Sen. Elizabeth Warren—he has not called for enacting a so-called wealth tax that would be imposed on affluent individuals based on their net worth. Instead, he has adopted a fairly traditional approach to redistributing the tax burden that calls for higher taxes on realized income (from wages and capital gains) and on the value of an individual's estate at death (beyond an exemption threshold) through proposals to:

- Restore the top rate for individuals to its pre-TCJA level of 39.6 percent,
- Cap value of itemized deductions at 28 percent,
- Tax capital gains and dividends as ordinary income for those with income over $1 million,
- Tax carried interest income as ordinary, and
- Modify the estate tax to repeal the basis step-up for inherited assets.

Former Vice President Biden also proposes to shore up future Social Security shortfalls through payroll tax changes targeting upper-income wage earners. Currently, a payroll tax of 12.4 percent is equally split between employers and employees on the first $137,700 of an employee's wages (the wage cap for 2020, indexed for inflation). The former vice president would expand the payroll tax regime by establishing a second threshold at which the tax would be imposed. Under his plan, the Social Security payroll tax would apply to:

- Wages up to the inflation-adjusted limit under current law, and
- Wages above $400,000.

The result would be a "donut hole" where wages above the current-law threshold (adjusted for inflation) and below $400,000 would not be subject to the payroll tax.

Trump: Doubling down on the TCJA

President Trump, for his part, has not released a set of official tax policy proposals as part of his reelection campaign. However, the three budget blueprints he has submitted to Congress since the enactment of the TCJA in December of 2017 all assume that the temporary provisions addressing individuals, estates, and passthrough entities will be made permanent.

Moreover, the president has called for building on the TCJA through what he has dubbed a "Tax Cuts 2.0 package," which would focus on providing additional tax relief to low- and middle-income taxpayers. He is currently set to unveil his proposal this coming September when the general election season begins in earnest.

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Planning considerations

The general elections are still months away, and it is impossible to know who will be setting the tax policy agenda when the next presidential administration begins in 2021. Moreover, as the nation continues to grapple with the economic uncertainty stemming from the COVID-19 pandemic, the tax proposals put forward in a Trump or a Biden administration next year may be influenced—possibly in ways we cannot yet anticipate—by the status of the economic recovery at that time.

Despite this uncertainty, significant tax law changes over the next few years remain a real possibility, and it is not too early to start evaluating the proposals being put forward, modeling potential outcomes, and planning the appropriate actions to take if and when these proposals go from high-level plans and talking points to fully framed legislative policies with substance, effective dates, and, presumably, anti-avoidance rules.

It's not too early to start evaluating the proposals, model potential outcomes, and plan for taking action.

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Taxing income and wealth: Comparing the candidates' proposals

The table below provides an overview of how former Vice President Joe Biden (the presumptive Democratic presidential nominee) and President Donald Trump (the presumptive Republican nominee) would address a variety of issues related to the taxation of high net worth individuals and how their respective proposals compare with current law. The policies outlined here are still being fleshed out and may be subject to significant refinement as the 2020 presidential campaigns continue.

Individual income- and asset-based tax proposals

Issue	Current law	Joe Biden	Donald Trump
Ordinary income	Top rate of 37% through 2025 Additional 0.9% Medicare income tax applies to earned income >$250,000 for joint filers and $200,000 for single taxpayers	Restore top rate to 39.6%	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Limitation on itemized deductions	Pease limitation repealed through 2025	Cap value of itemized deductions at 28%	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Capital gains, dividends	20% tax rate applies to long-term capital gains and qualified dividends Additional 3.8% net investment income tax applies to individuals with income >$200,000 and joint filers with income >$250,000	Tax capital gains and dividends as ordinary income for those with income >$1 million (possibly combined with a mark-to-market regime for those taxpayers)	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Carried interests	Treated as long-term capital gain if held for at least three years	Tax as ordinary income	No specific proposals to change the tax treatment of carried interest
Passthrough income	Generally taxed at owner's individual rate, subject to a 20% deduction under section 199A for domestic business profits (deduction expires after Dec. 31, 2025)	No proposal	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law
Payroll taxes	**Social Security:** 12.4% tax is equally split between employers and employees on first $137,700 of employee's wages (the cap for 2020, indexed for inflation) **Medicare:** 2.9% tax is equally divided between employers and employees; no income limit applies	Expand Social Security payroll tax to apply to wages >$400,000	No specific proposals for permanent structural changes to payroll taxes
Estate tax	40% estate, gift, and generation-skipping tax; basic exclusion of $10 million per taxpayer, adjusted annually for inflation ($11.58 million in 2020); increased exemption sunsets Dec. 31, 2025	Repeal stepped-up basis at death	FY 2019, 2020, and 2021 budget blueprints assume permanent extension of current law

SOURCES CONSULTED

Details on the candidates' stated positions as summarized in this discussion and in the table are drawn from the sources listed below.

Joe Biden: joebiden.com; *Bloomberg*, December 4, 2019; Democratic National Committee debate, June 27, 2019.

Donald Trump: Office of Management and Budget, *A Budget for America's Future (Fiscal Year 2021): Analytical Perspectives*, February 2020; *A Budget for a Better America (Fiscal Year 2020): Analytical Perspectives*, March 2019; *An American Budget (Fiscal Year 2019): Analytical Perspectives*, February 2018.

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