

Is Bidens Wealth Tax Plan a Planning Opportunity?

PUBLISHED ON
April 15, 2020

With Joe Biden now all but assured of the Democratic presidential nomination, his wealth tax proposal could have a profound effect on the transfer of wealth in America and the investment philosophy of millions of Americans.

The Biden proposal - and right now, it is just that, a pie-in-the-sky campaign-trail proposal - would eliminate the "step-up in basis" concept and likely alter how estates are administered and assets are transferred in a client's later years.

Under current federal law, when an individual dies, that person receives a "step-up" in income tax basis for assets to the date of death. For example, an individual who purchased Microsoft for \$10 per share 25 years ago would get the benefit of an increased income tax basis at their death. If the value of Microsoft was \$100 per share on the date of the person's death, \$100 would be the income tax basis at that time and the person's heirs could sell the stock with little or no capital gain or transfer the shares in kind with an income tax basis of \$100 per share.

This long-standing law has influenced many investment decisions by taxpayers with appreciated securities. Many people are reluctant to sell securities with a low income tax basis during their lifetime (and incur capital gain tax) because they understand that their heirs will get an increased income tax basis when they die. We have seen many clients hold on to securities that it might otherwise be prudent to sell because they let the tax tail wag the dog.

Biden's proposal would be to eliminate this "step-up in basis" concept. Under his campaign proposal, death would cause an income tax realization event which would cause capital gain tax (20%) to be due, whether or not the securities are sold or the person is otherwise subject to federal estate tax (which is currently at a fairly high level).

At first blush, Biden's proposal seems devastating to the way that most of America thinks about long-term investments and the transfer of securities in great dividend paying companies. At a bare minimum, this proposal should encourage everyone to reexamine their securities holdings.

There might be a silver lining, however. The attorneys in the [Barley Snyder Trusts & Estates Practice Group](#) have observed far too many people cling to low-basis securities at almost any cost. Perhaps knowing that capital gains tax will be due at death might encourage folks to better diversify their portfolios, which should be beneficial to their personal wealth in the long run. The additional silver lining might be with depressed market values, potential gains are minimized.

If you have any questions on Biden's proposal, the current state of wealth transfer or any other questions

about an estate matter, please [contact me](#) or any member of the [Barley Snyder Trusts & Estates Practice Group](#).

:



Michael L. Mixell

Counsel

Tel: (610) 898-7159

Email: mmixell@barley.com