

This Plan would make sweeping changes to our individual tax system and a limited window of time is available to plan for some of the changes. Although we do not know specifics about many of the changes, we do know, in general, what the changes will be should this Plan become law. In this letter we wish to make some general tax recommendations regarding upcoming changes. Please remember these are just proposed and not yet effective.

Individual Tax Rates

As a general premise of the Plan, tax rates will increase for higher income Americans. The latest proposal includes an increase in the tax rate, a possible addition of an additional surtax, and a huge lowering of tax brackets. As a general rule, this means that higher income Americans who have the opportunity to do so should accelerate income into 2021 and defer expenses until 2022. This is even more important for business owners who may be adversely affected by incredible increases in self-employment tax, the net investment income tax surcharge, and in rare cases, a reduction of the 20% QBI deduction. Because the marriage penalty is so severe, we seriously would want to speak with you about the adverse tax effects of marriage if you are two unmarried, high-income folks.

Capital Gains Rates

Capital gains rates will also see big 2022 changes. Some suggestions have been made to make these changes retroactive, but assuming they do not go into effect in 2022, a prudent tax move would be to go ahead and recognize gains on investments and real estate in 2021 in order to minimize the income tax burden. The rate change is still fluctuating, but the bottom line is that the rate will increase.

Credits

The existing high credit amounts for children and child-care would continue under this plan, so no action is required to benefit from these changes.

Small Business Owners

Of particular concern are the massive changes proposed for small business owners, with large increases for self-employment tax *at all income levels*, not just high-income levels. The proposals would affect operating businesses as well as business asset sales, so it is even more important for business owners to plan in advance and absolutely mandatory that we schedule a meeting as soon as possible to plan in 2021 while there is still time. To illustrate how important this is to you, we just attended a class where the instructor showed us that an average business owner making \$100,000 might easily pay another \$7,650 in 2022 tax versus 2021 tax.

Home and Property Sales

Because of potential increases in capital gains rates, homeowners and property owners that are considering the sale of their home, building, land or farm at a large profit need to contact us immediately so you can understand how a sale in 2021 may be of paramount importance.

Estate and Gift Tax Changes

We do not know exactly what will change here, but changes are coming for taxes due at death. These changes could affect everyone, not just wealthy Americans.

Other Proposals

It appears that 2022 will bring big increases to credits for buying electric vehicles, and for installing solar power and energy improving features in your home or office. These proposals lead us to advise, at least right now, that you postpone any of these plans until 2022.

Summary

Taxes will be going up in 2022 for wealthier Americans and for small business owners. We can help you to reduce some of the effects, but only if you speak with us before the end of the year. The cost of 2021 planning actions will be more than offset with 2022 and future savings.