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Biden's Fiscal Year 2024 Budget Proposals

Highlights – March 2023

On March 9, President Biden released his budget proposals for Fiscal Year 2024, which begins October 1, 2023 and ends September 30, 2024.[1] It includes many changes the Biden administration has previously proposed, including the following tax proposals:

Individual Income Tax Proposals

- Impose a 25% minimum tax on the total income, including unrealized capital gains, of taxpayers with over $100 million in wealth.
- Increase the top marginal tax rate from 37% to 39.6% for single taxpayers with taxable income over $400,000 and married taxpayers filing a joint return with taxable income over $450,000.
- Increase the top long-term capital gains rate from 20% to 39.6% for taxpayers with taxable income over $1 million.
- Increase the .9% Medicare surtax to 2.1% on earnings over $400,000.
- Increase the Net Investment Income Tax rate from 3.8% to 5% for taxpayers with over $400,000 of income.
- Apply the Net Investment Income Tax to pass-through business income not subject to self-employment tax for taxpayers making over $400,000.
- Increase the child tax credit from $2,000 to $3,600 per child under the age of 6 and $3,000 per child aged 6-17 and reinstate monthly payments of the credit.
- Limit the gain that a taxpayer can defer in a 1031 exchange of real estate to $500,000 per taxpayer per year ($1 million for married taxpayers filing a joint return).
- Tax income from carried interests in investment partnerships held by individuals with total income in excess of $400,000 at ordinary tax rates.
- Apply the wash sale rule to digital assets.

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[1] *Available at* https://www.whitehouse.gov/wp-content/uploads/2023/03/budget_fy2024.pdf *and* https://home.treasury.gov/system/files/131/General-Explanations-FY2024.pdf.

- Repeal expensing of intangible drilling costs and the exclusion from the passive loss rules for working interests in oil and gas properties, in addition to changing a number of other rules relating to oil and gas interests.

Retirement Proposals

- Prohibit high-income taxpayers[2] from rolling over or transferring funds from a non-Roth employer-sponsored plan or traditional IRA into a Roth IRA.
- Require high-income taxpayers with over $10 million in all of their tax-favored retirement accounts to distribute 50% of that excess balance, with additional distribution requirements imposed if their aggregate retirement account balances exceed $20 million.

Transfer Tax Proposals

- Treat transfers of appreciated property by gift or at death as taxable dispositions, subject to a $5 million per-donor lifetime exclusion and unlimited marital and charitable exclusions.
- Treat distributions of appreciated property by a non-grantor trust as taxable dispositions, in addition to requiring trusts, partnerships, and other non-corporate entities to recognize unrealized gain from property that has not been involved in a taxable transaction within the prior 90 years.
- Treat sales and exchanges between a grantor and an irrevocable grantor trust as taxable transactions.
- Classify unreimbursed income taxes paid by the grantor on the income of an irrevocable grantor trust as a gift.
- Impose a $50,000 per year cap on the total transfers to most trusts that can qualify for the annual exclusion, regardless of the number of donees involved. The proposal would also lift the present-interest requirement for these transfers. This $50,000 aggregate annual cap would be in addition to the current $17,000 per donee annual cap.
- Change GRAT rules, including imposing a 10-year minimum term, prohibiting a non-taxable substitution of assets, and requiring the remainder interest to have a minimum value equal to the greater of 25% of the value of the assets transferred to the GRAT or $500,000.
- Limit the beneficiaries eligible to receive generation skipping transfer (GST) tax-free distributions from a GST-exempt trust to only the transferor's grandchildren or younger beneficiaries who were alive at the creation of the trust, or to more remote descendants who benefit from a taxable termination while a grandchild or other descendant living at the creation of the trust is still alive.
- Restrict the use of valuation discounts on transfers of real estate, non-publicly traded entities, and other hard-to-value assets.

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[2] A high-income taxpayer is defined as a taxpayer with a modified adjusted gross income of over $450,000 if married filing joint, $425,000 if head-of-household, and $400,000 in all other cases.

Business Proposals

- Increase the corporate income tax rate from 21% to 28%.
- Increase the excise tax on stock buybacks from 1% to 4%.
- Increase the effective global intangible low-taxed income (GILTI) rate to 14% and reform a number of other international tax rules.

These are only proposals by the Biden administration. It does not appear that many of them currently have the necessary support in Congress to become law, even if they were introduced as part of a bill.

Conclusion

We are monitoring changes to the tax legislation and will provide timely updates and additional planning commentary when necessary. Goldman Sachs does not provide legal or tax advice and we strongly recommend you consult with your legal and tax advisors before taking action.

Please contact your advisor with questions.

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