

How Will the Election Affect Your Finances?

After an extremely crazy year, the last thing any of us wants to do is focus on more politics. The truth is, however, that politics generally impact financial planning. Regardless of your political leaning, it is important to understand how new policies may impact your situation, so you can make necessary changes to curb any negatives and take advantage of the positives if possible. Taxes, Social Security, and Medicare are all hot issues that are affected by whoever is calling the shots.

It appears likely, based on media projections, that we will have a Biden/Harris administration in the not-too-distant future. If placed into office, the first thing Biden has sworn to do is to undo Trump's 2016 tax plan which will decrease most taxpayers' spendable income. Let's take a look at some of the key points of what Biden has outlined in his new tax plan:

Biden Tax Plan

- Tax long-term capital gains at ordinary income rates. That could mean paying as much as 39.6% on gains that were formerly taxed at up to 20%.
- Eliminate the step-up in basis that allows heirs to eliminate taxes on inherited assets. And if taxed as ordinary income tax rates this could diminish an inheritance by a third or more of the assets being transferred.
- Cut the pre-Tax Cuts and Jobs Act Estate tax exemption limit of \$5.6 million down even further. This means even the "not so large" estates will be taxed at rates up to 40% or more as they pass on to your heirs.
- Limit the value of itemized deductions to 28% of income. Currently there are not any limits, and even charitable deductions can be made on up to 60% of your taxable income.
- Impose an income tax surcharge called the Pease tax for high earners. Not sure about the rate yet, but it's another "wealth tax" or penalty for "over achievers".
- Impose the 12.4% Social Security tax on salaries above \$400,000. As of now, social security contributions are capped at 137,700. This means there will be a "donut hole" from paying Social Security tax on earnings between \$137,700 and \$400,000.
- Eliminating the \$10,000 limit on state and local tax deductions. This is a good thing.

These additional tax dollars produced will be used to generate funds allocated to infrastructure, healthcare, clean energy initiatives, programs like Social Security and Medicare, as well our nation's outstanding debt.

Social Security

While many of these items could take time to enact, Social Security is an issue that needs to be taken care of sooner than later. As it continues to pay out more than it brings in, Social Security is projected to be insolvent by 2035 and at that time around 75% of demand will be satisfied by workers and employers.

Biden's plan to revise Social Security may, however, drain its coffers faster than filling it due to additional benefits. Biden's

team claims the extra revenues raised will cover it.

First, let's take a closer look at what needs to be covered:

- a 5% Increase in payments for individuals who have been receiving benefits for at least 20 years.
- A minimum benefit so that everyone who has worked for at least 30 years would be guaranteed a benefit equal to at least 125% of the federal poverty level.
- Increased survivor benefits for spouses by about 20%.
- Eliminate benefits cuts for workers who are eligible for both Social Security and a separate pension.

These changes are ambitious, to say the least, and with a program that is already facing financial difficulty, the proposed tax increases outlined above might not even cover the additional benefits outlined. And that's not all. Let's look at one more give-away item we need to consider regarding Medicare benefits.

Medicare

Currently, Medicare is only available to those 65 years and older, unless they meet specific criteria. Joe Biden has proposed lowering Medicare eligibility to 60 years old. This would increase the amount of Medicare enrollees by 23 million per year- and I'm sure you already know who will be paying for it. Not only will taxes need to be raised, the Medicare annual deductible and other costs will likely need to go up to accommodate all those who would be benefiting from the program earlier than previously projected.

If you haven't considered efficient tax planning for your retirement yet, It's certainly a good time to begin. If you are already planning with efficient tax strategies, you may need to readjust a bit. Biden makes no bones about it. If you do nothing, your taxes will be going up.

Feel free to call if you would like a complimentary consultation to see if you are on track to make the best of your financial future.

Sources: 1. <https://www.kiplinger.com/taxes/601220/kamala-harris-tax-policy-proposals>. 2. <https://taxfoundation.org/joe-biden-tax-plan-2020/> 3. <https://www.cnn.com/2020/08/18/heres-how-joe-biden-plans-to-change-social-security-if-elected-president.html> 4. <https://www.npr.org/sections/health-shots/2020/11/11/933522346/biden-wants-to-lower-medicare-eligibility-age-to-60-but-hospitals-push-back>



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