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The American Families Plan and Its Impact on Income Tax Rates

President Biden announced the American Families Plan on April 28 and the proposed provisions of the Plan are outlined in a [White House fact sheet](#). More details will be forthcoming in the months ahead and their implications will undoubtedly be the subject of much discussion.

The American Families Plan follows the American Rescue Plan and the American Jobs Plan which together are designed to help the nation recover from the economic and social impacts of the pandemic and invest in the country's future.

The proposals outlined in the American Families Plan focus on investments to support the educational and economic needs of families and children and to expand the middle class.

Education and Family Provisions

Education provisions include:

- Federal and state partnerships to provide universal preschool education to all three- and four-year-old children.
- Free tuition at two-year community colleges.
- Free tuition at certain universities that specialize in serving underrepresented students.
- Increased investment in teacher training and childcare education.

Family provisions include:

- Free or subsidized childcare for lower-income families.
- Expanded paid leave programs.
- Investments in childcare workforce training.
- Expanded healthy school meal programs.
- Reforms to the unemployment insurance system.

Expanded Tax Benefits of the Plan

The Plan includes several tax benefits for families such as:

- Extending tax credits for expanded ACA premiums in the American Rescue Plan and making premium reductions permanent.
- Extending the enhanced child tax credit through 2025 and making it permanently fully refundable.

- Permanently increasing tax credits to support families with childcare needs.
- Permanently extending the Earned Income Tax Credit for childless workers.

Tax Reform and Proposed Funding

Although details have not yet been shared, the White House proposes funding the Plan through an increase in tax revenue over a 10-year period. A substantial portion of the funding likely will come from individual tax increases such as:

- Increasing the top individual income tax rate from 37% to 39.6% for taxpayers with an income of \$400,000 or more. It is unclear how the \$400,000 will be defined (as gross income, adjusted gross income, taxable income or some other measure) or whether there will be different thresholds for different tax filing statuses.
- Increasing the top capital gains rate from 20% to 39.6% for households with income over \$1 million. It is unclear how the \$1 million will be defined, how households will be defined or the proposed effective date. The proposed capital gains rate increase will reduce some of the benefit of carried interest.
- Expanding the 3.8% net investment income tax.
- Repealing the basis step-up for certain inherited assets for gains of more than \$1 million (\$2.5 million for couples). This may include special protections for family-owned businesses and farms, and for heirs who continue to run the businesses.
- Making permanent the limitation of excess business losses for individuals.
- Expanding the 3.8% Medicare tax, although it is unclear as to what income will be covered.

Other Aspects of the Plan

Other noteworthy provisions of the Plan include:

- Increasing the funding for the IRS to improve enforcement.
- Taxing carried interest as ordinary income.
- Repealing like-kind exchange tax deferrals.

The American Families Plan marks the beginning of a long legislative process and President Biden has expressed his willingness to negotiate the details of his proposals with Congress. As more details are shared, Frankel Zacharia will keep you updated with future tax notices.

If you have any questions or would like to discuss how you can best prepare your business for these tax changes, please reach out to Frankel Zacharia at 402.496.9100.