Client Alert: Presidential Tax Rate Proposal

With the passing of the COVID-19 relief bill, the White House is now focusing its efforts on the tax plan proposal, scheduled to be on the docket for summer of 2021. This tax package proposes many alterations to the current tax code, with the main potential changes for individuals and corporations being outlined below.

Category	Current Law	Proposed Law
Top marginal rate for individuals	37%	39.6%
Corporate tax rate	21%	28%
Social Security taxes on wages and self-employment Income	Social Security taxes not collected on wages above $137,000	Extends 12.4% tax on wages and self-employment income above $400,000. No upper cap on income level

Individuals

As tax rates increase, individuals look to pre-tax investment vehicles such as: traditional IRAs, 401(k)s, and deferred compensation plans to lower their current year's taxable income. Contributing to these pre-tax investment vehicles delay taxation until distribution, with the hope of being in a lower tax bracket in the future.

Corporations

As individual tax rates increase, corporations offering a deferred compensation plan can expect to see a rise in participation, ultimately increasing plan liabilities. The most common ways to informally fund deferred compensation plans include mutual funds and corporate owned life insurance. Mutual fund investment returns are subject to corporate tax rates. However, corporate owned life insurance investment gains are generally not subject to corporate tax rates, making corporate owned life insurance a more efficient asset in a higher corporate tax rate environment.

For more information regarding the potential impacts of this tax package, please contact your Mullin Barens Sanford Associate.

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