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Tax increases under discussion

The House Ways and Means Committee in September released proposed tax increases totaling $2.18 trillion over the next ten years. Key components of "Responsibly Funding Our Priorities" include:

• increasing the corporate income tax rate from 21% to 26.5%, raising $540 billion;
• applying the 3.8% net investment income tax to certain business income of those earning more than $400,000 per year, raising $252 billion;
• lifting the top marginal income tax rate to 39.6%, raising $170 billion;
• applying a new 3% surcharge on incomes greater than $5 million, raising $127 billion;
• boosting the tax on long-term capital gains from 20% to 25%, raising $123 billion;
• increases in tobacco taxes yielding $97 billion; and
• cutting the unified credit for estate and gift taxes roughly in half, which raises only $54 billion, in large part because that change was already scheduled for 2026.

The reduced unified transfer tax credit would not take effect until next January 1. With the net investment income tax and the new 3% surtax, the top rate for long-term capital gains would become 31.8%.

Missing from the initial release of the bill was any change to the $10,000 cap on the deduction for state and local taxes. However, Democrats reportedly were continuing to negotiate this tax break for the rich, the primary beneficiaries of the unlimited SALT deduction. The President's proposal to make death a moment for the recognition and taxation of long-term capital gains also did not appear in the initial draft. In a September 16 statement from the White House, the President expressed the hope that his proposed changes to the capital gains tax would make it into the final bill. He did not mention the changes to the SALT deduction.