

What Biden's tax proposals may mean for your wealth

Key points

Seeing through a tax lens.

Changes in taxes aren't certain — but this should remind investors that assessing their wealth through a tax lens is increasingly important.

Specific policies mean specific actions.

Some of the proposed changes would impact individuals differently depending on their income and investments — talk to a financial professional.

Maintain good habits.

Even without any tax changes, investors should consider tax-efficient strategies.

Headlines on Wednesday, April 28, focused on the Biden administration's \$1.8 trillion American Families Plan, largely funded by taxes on high earners. In particular, much of the investment world is focusing on the proposal that long-term capital gains get taxed at the same rate as ordinary income, like wages. For those earning more than \$1 million, that could have big implications.

If your initial move was to call your financial professional, you're on the right track. But there's no reason to panic. This White House announcement is simply a summary proposal. But what actually gets enacted may look different from what it looks like today.

Proposed changes

At a high level, the potential impact to your wealth highly depends on your taxable income level.

Income level	Proposed tax changes
Below \$400k	Taxes on investments would remain close to unchanged.
Between \$400k and \$1M	The rate on ordinary income is currently proposed to increase somewhat from 37.0% to 39.6%. When including investment taxes of 3.8%, the top Federal rate on some portfolio income could be as high as 43.4%. The combined rate on long-term capital gains would remain unchanged at 23.8%.
Greater than \$1M	With a very large impact, the top marginal rate on long-term capital gains and qualified dividends would increase to the same rate as ordinary income, nearly doubling to 43.4% from the current combined rate of 23.8%.

Note: we don't know yet about how the brackets will play out in terms of filing status.

Implications for investors

Whatever the outcome of these proposed changes, investors would do well to consider strategies that limit the negative impact of taxes on their wealth. While it may appear tempting to act now in advance of anticipated legislative changes, each decision requires careful analysis of a taxpayer's specific situation, a time when input from financial professionals can prove particularly beneficial.

Over the long-term, investors who are worried about tax implications may consider ETFs, which tend to be more tax

efficient than the average actively managed fund, as well as municipal bond funds. In addition, optimizing an entire portfolio for after-tax returns often means placing the most tax-inefficient assets, those that generate a lot of taxable income, in accounts like IRAs or 401(k)s, leaving efficient strategies like ETFs to be located within taxable accounts. The higher the tax rate, the more such location decisions matter. And for some investors tax-advantaged separately managed accounts allow for even further improvement in optimal tax management.

Bottom line

Tax changes this year are neither certain nor necessarily permanent even if they are passed into law. Even as potential changes in taxes loom, investors would do well to stick to their long-term goals yet focus on the value from tax-efficient strategies. But regardless of the outcome, the recent proposal is a reminder that it's increasingly important to speak to a financial professional to help view your wealth through a tax lens.

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