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What proposed tax changes could mean for high-net-worth individuals and businesses

In September, the House Ways and Means Committee released and approved draft legislation as part of Congress' ongoing \$3.5 trillion budget reconciliation bill. The legislation includes significant tax proposals that, if passed, would dramatically increase what high-net worth individuals and corporations pay.

According to The National Law Review, the committee's recommendations head to the House Budget Committee – and the Senate will vote on its own reconciliation bill featuring tax increases proposed by the Senate Finance Committee. While these changes remain pending, it's important to note that the recommendations in their current form may not end up in the final budget bill.¹

Making your way through all these changes can be overwhelming. Be sure to work with your financial professional and tax advisor to understand the potential impact to you or your business.

Highlights: House Ways and Means tax proposal

Let's take a look at a summary of proposed changes that may be particularly relevant to high-net worth individuals and business owners.

Individual, capital gains, and dividend tax rate increases

Capital gains and dividend tax rates, as proposed by the House Ways and Means Committee, would increase for certain higher-income taxpayers from their current level of 20% to as high as 25%. There is a 3% surtax proposed that would apply to both ordinary and capital gain income in excess of \$5,000,000 (\$2,500,000 for married individuals filing separately and \$100,000 for estates and trusts).

Individual tax rates could increase from 37% to 39.6% for married individuals filing jointly with taxable income over \$450,000, heads of households with taxable income over \$425,000, and unmarried individuals with taxable income over \$400,000.

Estate and gift tax increases and changes

The estate tax and lifetime gift tax exemption is currently \$11.7 million per person and would drop to \$5 million (adjusted for inflation). Under current law, this reduction is already scheduled to occur on January 1, 2026, and

the proposal would accelerate that change to the beginning of 2022.

The estate and gift tax rules that apply to grantor trusts could be severely limited under the House Ways and Means Committee's proposal. No longer will the grantor be able to supercharge estate tax planning by paying the income tax on behalf of the irrevocable trust and by selling appreciated assets to the trust in a tax-free exchange.

If enacted, the assets owned by the irrevocable trust will be pulled into the grantor's taxable estate and will eliminate the grantor's ability to sell appreciated assets without paying capital gains tax.

Under the proposal, taxpayers will no longer be able to take valuation discounts for gift and estate tax purposes on entities holding passive assets not used in an active trade or business.

Retirement plan changes

The bill would prohibit individuals with retirement accounts exceeding \$10 million from contributing extra savings and would have a new required minimum distribution (RMD) each year, and that RMD will be equal to one-half of the IRA value in excess of \$10 million.

It would also repeal so-called Roth conversions in individual retirement accounts and 401(k)-type plans for individuals making more than \$400,000 a year (\$450,000 married filing jointly and \$425,000 heads of household). It would also prevent savers from using the "mega-backdoor Roth" strategy, regardless of income level.

While it's impossible to predict how many tax changes will pass through Congress as proposed, one thing is certain: your financial professional can help you navigate what these tax changes could mean for you.

1. ["House Ways and Means Committee Proposed Tax Changes Impacting High-Net Worth and High-Income Individuals."](#) The National Law Review, Vol. XI, No. 273, Copyright©2021 Nelson Mullins Riley & Scarborough LLP. September 22, 2021.

All other statistics from Finseca:

Forster, John M. and Shook, Alyssa. "Highlights from House Ways & Means Committee Tax Proposal – Conversations for your clients." Finseca Report: Marketplace, Finseca.org, September 23, 2021.

Caron, Josh and Kim, Alex. "The Ways & Means Tax Bill – Top 11 relevant provisions for financial security professionals." Finseca Policy Deep Dive, Finseca.org, September 21, 2021.

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