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**Page Title:** Reconciliation Bill Tax Increases Addressed by the Ways and Means Committee | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

**Meta Description:** The current reconciliation bill is topping \$3 trillion and includes significant tax changes. [NAME OF FIRM] provides an overview of how these changes might impact your personal and business taxes, as well as your retirement plans.

**Headline:** Reconciliation Bill Tax Increases Addressed by the Ways and Means Committee

As part of the \$3.5 trillion reconciliation bill being considered by Congress, multiple far-reaching tax proposals were recently addressed by the Ways and Means Committee. Though many substantive changes are expected during reconciliation, with the provisions expected to go into effect after December 31, 2021 (excluding the capital gains rate increases), these can have a strong impact on your personal and business taxes. Many of these changes apply to high-income taxpayers, typically defined as having taxable income of \$400,000 single or filing separately, \$425,000 head of household or \$450,000 filing jointly. Here's a quick look at the highlights of the bill.

**Highlights of the Reconciliation Bill Tax Changes****High-Income Personal Tax Increases**

- The top marginal income tax rate increases from 37% to 39.6% for high-income levels, with married filing separately at \$225,000. It also applies to trusts and estates that have taxable income exceeding \$12,500.
- AGI higher than \$5 million or \$2.5 million for married filing separately will have a surcharge of 3% of the AGI.
- Net investment income tax is extended to cover net investment income from the ordinary course of business with taxable income over \$400,000 or \$500,000 for individuals filing jointly, in addition to trusts and estates.
- Qualified business income deduction is amended by capping allowable deductions at \$500,000 for joint returns, \$250,000 married filing separately, or \$10,000 for estates and trusts.
- Long-term capital gains rates will increase from 20% to 25% for tax years ending after September 13, 2021, with a transition rule providing a preexisting 20% rate for the portion of the tax year prior to that. Gains from transactions started prior to September 13 are treated as occurring prior to that date.
- Excess business losses (deductions exceeding income) are permanently disallowed for non-corporate taxpayers, though disallowed losses may be carried forward to the next tax year.

## **Estate and Gift Tax Changes**

- Federal estate and gift tax exclusions will be reduced to the 2010 level of \$5 million per person, which is indexed to account for inflation.
- Grantor trusts are essentially shut down for planning purposes. Grantor trust assets are included in the grantor's estate, distributions are treated as gifts made by the grantor (if the trust ceases to exist it is treated as making a gift of the trust's estates) and sales between the grantor and trust are no longer disregarded for tax purposes for trusts created after the deadline and for contributions on or after the enactment date.
- Valuation discounts in transfers of family-owned businesses are disallowed for non-business assets held by the entity, including passive assets held for production of income but not used in the active course of business, such as funding with marketable securities.

## **Business Tax Changes**

- The corporate tax rate will change to 18% for the first \$400,000 of income, 21% of additional income up to \$5 million, 26.5% above \$5 million and phasing out graduated rates for corporations with income exceeding \$10 million.
- Partnership Interests (IRC Sec. 1061) extends the three-year holding period to five years when qualifying for long-term capital gains connected to carry interest for organizations under \$400,000 AGI. Application of this section is also extended to all eligible assets for long-term capital gains rates and provides that the holding period must be satisfied for both the partnership's holding period as well as the holding period in the partnership in all substantial assets with similar rules for tiered partnerships.
- Qualified Small Business Stock (IRC Sec. 1202) will no longer exclude 75% and 100% rates for sale of certain small business stock for taxpayers with AGI exceeding \$400,000. This can impact gains on disposition of qualified small business stock, making it subject to the Alternative Minimum Tax, for sales and exchanges after September 13, 2021, except for binding contract exceptions.
- Cryptocurrencies now fall under extensions of IRC Sec. 1259 and IRC Sec. 1091, as they have been expanded to cover the sale of digital assets.
- Converting S corporations, which were in this form on or prior to May 13, 1996, to partnerships tax-free is allowable for two years from December 31, 2021.

## **Retirement Rules Changes**

- High-income taxpayers who have retirement accounts exceeding \$10 million at the end of the last tax year are not permitted to contribute to Roth or traditional IRAs, indexed for inflation.
- High-income taxpayers with combined retirement accounts exceeding \$10 million are required to have a minimum distribution the following year, typically 50% of the amount in which the prior year's combined account balances exceeded \$10 million.
- For combined balances exceeding \$20 million, the excess must be distributed from Roth IRA and Roth-designated accounts in a defined contribution plan, typically limited to the aggregate balance.

- Roth conversions for both IRAs and employer-sponsored plans are essentially being eliminated for high-income taxpayers, applying to distributions, contributions and transfers, while prohibiting after-tax employee contributions into qualified plans, including after-tax IRA contributions being converted to Roth plans regardless of income level.
- IRAs are no longer allowed to hold a security if the security issuer makes the IRA owner have particular minimum asset or income levels, have a particular minimum education level, have a particular credential or license. These IRAs will lose their IRA status, with a two-year transition period for IRAs with these investments.
- IRA assets in which the owner has an interest has been adjusted from a 50% ownership to 10% ownership if the investments aren't traded on established securities markets, regardless of whether there's a direct or indirect investment. If the IRA owner is an officer, they're not allowed to invest in that entity at all. To be an IRA, the account must meet this requirement, with a two-year transition period for IRAs that already have these investments.
- IRA owners are now treated as disqualified persons for applying prohibited transaction rules.

**CLOSE:**

If you have any questions or are concerned about how these changes will impact your finances, please contact [NAME] in our [DEPARTMENT] at [NUMBER/EMAIL].

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