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# 2021 TAX LAW CHANGES THAT MAY AFFECT YOUR ESTATE

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President Biden has stated that he wants to make some tax law changes in 2021. Three of these tax changes could affect your estate: the estate tax, the income tax, and the capital gains tax. If you are creating your estate plan, consider these tax law changes to ensure you can save as much money as possible. If you already have an estate plan, we encourage you to review it in light of these expected changes. It may benefit you to adjust your plan for better tax savings.

Let's look at each one, starting with the estate tax.

## ESTATE TAX

We expect that President Biden will reduce the unified credit exemption. The unified credit exemption is an exemption from the estate and gift tax. This tax applies to the combined amount of money you give away during your lifetime and at your death. Right now, the unified credit exemption is \$11 million for single individuals and about \$23 million for married couples. This means that if the total amount you give during your life and at your death is less than these amounts, you won't owe any estate and gift tax. If you give more than these amounts, you will owe a tax of around 40% on amounts over those figures. But Biden has said he wants to reduce the exemption to \$3.5 million for single individuals. If that happens, we assume it will be lowered to around \$7 million for couples as well. Also, he plans to raise the tax rate on those gifts from 40% to 45%. If this 2021 tax law change passes, the estate and gift tax will apply to many more people.

## INCOME TAX

President Biden has also stated that he wants to raise the marginal rate on income tax. He plans to increase the marginal rate for citizens who earn the highest yearly wages. Increased income tax could also affect retired citizens who plan to draw from traditional IRAs or 401ks in the next four years. Most of the time, IRA and 401k funds are not taxed until you withdraw them. So, a higher marginal rate on income could mean more taxes for these funds too. Also, Biden plans to limit the number of deductions you can claim on your taxes, such as for charitable gifts and interest on loans. If you are unable to use certain deductions, your income taxes will be higher.

## CAPITAL GAINS TAX

The last 2021 tax law change you need to know about is the capital gains tax. The capital gains tax is a tax on investments that have increased in value. Capital gains taxes may change in two ways:

1) The actual rate may go up.

Currently, the maximum tax rate on capital gains is 20%. Some experts expect this to increase to 40%.

2) The “step-up in basis” may be eliminated.

Biden’s policy may change or do away with the “step-up in basis” rule, making your beneficiaries pay capital gains taxes on all investments they receive from you at your death.

## 2021 TAX LAW CHANGES WILL ALTER PLANNING EFFORTS IF THEY PASS

If these 2021 tax law changes pass, they will alter, and even undo, much of the estate planning U.S. citizens have done or are trying to do.

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For advice on what you can do to prepare for these changes, contact us. We will schedule a free consultation to talk with you about your options for saving as much money as possible.

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