

What to Expect from a Biden Administration and How to Minimize Your Tax Liability

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In the past year, US government spending has exploded due to the COVID-19 pandemic and economic recession. Relief packages total upwards of 6 trillion dollars to date, and the new Biden administration has plans to continue spending in various packages investing in the future of the United States. We expect the Biden administration to offset these programs and stimulus spending by raising taxes. We've already seen changes in the American Rescue Plan Act (ARPA) and have an idea of what tax legislation the new administration plans to propose moving forward.

Based on campaign promises, new spending proposals, and the current split in Congress, tax professionals like Alison Dunleavy and Tom Sena from UHY Advisors can gauge what to expect and how to prepare for changes affecting the IT and engineering staffing industry.

Passed Legislation

Joe Biden passed the ARPA early on in his term. The bill includes the following:

- Unemployment compensation
- Stimulus checks
- Expanded child tax credit with advanced payments
- Excess business loss limitation – extended through 2026
- Employee Retention Credit
- Paid sick and family leave tax credits
- Payroll Protection Program

The two significant aspects that affect the IT and engineering staffing industry are the Employee Retention Credit and PPP.

Employee Retention Credit

The Employee Retention Credit has been extended to the end of 2021. Qualifying businesses are provided with the tax credit if they were fully or partly shut down or have incurred a decrease in revenue of more than 20% compared to 2019.

The requirements are different for 2020 and 2021, so be sure to do your diligence in determining if your business qualifies. For 2020, companies receive a credit for 50% of qualified wages and healthcare costs, capped at 5k per employee for the year. Qualifying businesses will receive a credit of 70% of qualified wages and healthcare costs, and the maximum credit for each employee is 7K for 2021.

According to Alison Dunleavy, many businesses mistakenly presume they are eligible for ERC but fail to meet the requirements. It is essential to fully understand the qualifications for each year.

Proposed Legislation

The Biden administration has already proposed two huge packages in the American Jobs Plan and the American Families Plan. Each package is currently structured to cost about 2

trillion dollars. While we haven't seen a counterproposal from the Republicans, Tom Sena from UHY Advisors expects to see a compromise if the new packages are passed.

Paying for these packages will fall on America's top earners; the IT and engineering staffing industry needs to prepare for a corporate, individual, and estate tax increase.

Tax Increases

Biden plans to raise the corporate tax rate from 21% to 28%. Tom Sena believes increasing this rate will make the US much less competitive on a global scale. The new administration is also expected to crack down on companies that offshore their business. One means of acquiring unpaid taxes from American companies is placing a 15% minimum tax on book income. There are also efforts to create a global minimum tax; however, this would need the support of many nations looking to attract American businesses looking for lower tax rates.

The Biden administration hasn't formalized their tax plan but consistently references the 400K income level. It is unclear if this amount is the amount for households or individuals, but Tom Sena feels earners making over this amount can expect a tax increase and prepare.

Significant changes in capital gains taxes are expected. Sena recommends that owners of highly appreciating assets seriously consider gifting, transferring, or selling before new tax legislation is passed.

Alison Dunleavy warns business owners who are planning to pass along their assets or cash will face a higher tax rate. The gift tax exemption is expected to decrease from \$11 million per individual to somewhere between \$3.5 and \$5 million. Couples with combined assets above that threshold are potentially exposed to a 40% estate tax rate. She suggests considering reviewing your current estate plan and discussing different vehicles to preserve and transfer wealth sooner rather than later.

Minimize Your Future Tax Burden

While the tax structure hasn't changed to date, and to pass significant legislation such as a tax increase takes 60 votes in the Senate, it is essential to be prepared for notable changes in 2021. Business owners and employees in the IT and engineering staffing industry need to be proactive in receiving tax credits from the ARPA and preparing for future tax increases from the Biden administration.