COVINGTON

Outlook for Tax Reform in 2021 - 2024

Tax

Corporate Implications

- Income tax rate increases possible to between 25% and 28%
- The “Made in America” priorities of both political parties, and the antipathy created by offshoring, present opportunities for U.S. investment and risks to foreign expansion: New tax credits have been proposed by both parties for manufacturing and jobs expansion in the U.S. This would be offset by other anti-offshoring provisions, such as:
  - A proposed surtax that would apply to services and sales to U.S. customers from a U.S. company’s foreign affiliate, which could result in a corporate rate of 30.8% on these activities;
  - Doubling the global intangible low-taxed income (GILTI) rate to 21%; and/or
  - New tax penalties on companies that move operations overseas
- A potential new corporate alternative minimum rate of 15% on financial statement income over $100 million
- Payroll tax increases are proposed that could increase the employer’s share of payroll taxes for wages above $400,000
- Industry-specific tax increases are proposed for financial institutions, energy companies, pharmaceutical companies, real estate, and the gig economy

Implications for Individuals, Partnerships, and Flow-Through Entities

- Income tax rate increases have been proposed for upper middle-class incomes of $400,000 and above
- Payroll tax increases have also been proposed for income above $400,000
- The 199A deduction would be phased out at $400,000 and above
- There are proposals to repeal the preferential rates for capital gains and tax capital gains at ordinary income rates, and accelerate the taxation of capital gains on an annual basis *even if the capital asset has not been sold*
- Estate tax rates may go up and the exemption amount may go down to 2009 levels

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