

# AHWATUKEE FOOTHILLS NEWS

## Steps To Take Now Before Biden Tax Plan Hits



*December 2, 2020 by Dr. Harold Wong*

As I write this article, it looks more likely that Joe Biden will become the next U.S. President. If the Democrats win the runoff for the 2 Senate seats in Georgia, they will control the Senate, House, and the Presidency. If so, nothing will stop the proposed new Biden Tax Plan. Federal tax rates will certainly increase from the current maximum 37% to at least 39.6%. For those with earned income (wages or net profits from one's business) over \$400,000, they will also be hit with an extra 12.4% payroll tax surtax split between employer and employee. However, if you are the business owner, you pay both sides and this brings your total maximum federal marginal tax rate to  $39.6\% + 12.4\% = 52\%$ .

For those with incomes over \$1 million, taxes on long-term capital gains and dividends will be taxed as ordinary income rates of 39.6% instead of the current 20%.

In addition, if court challenges fail to stop the recent AZ Proposition 2018 that passed narrowly during the 11/3/2020 election, there will be 3.5% surtax on single filers whose taxable income exceeds \$250,000 (and over \$500,000 taxable income for joint filers). That will increase the maximum AZ income tax rate from 4.5% to 8%.

For high-income taxpayers, the new combined federal and AZ maximum tax rate would become  $39.60\% + 12.40\% + 8\% = 60\%$ . In contrast, the current maximum combined tax rate is  $37\%$  federal +  $4.50\%$  AZ =  $41.50\%$ . That's a huge

total 44.58% increase in combined tax rate for folks who earn substantial incomes.

**Powerful Tax-Planning Steps to take before 12/31/2020:**

Defer major deductions from 2020 and take them in 2021, where tax rates would be much higher if the Biden Tax Plan becomes law. This strategy is mainly for business owners who have major control over their business sales and expenses.

Accelerate income that will occur in early 2021 into December, 2020. If you have large bonuses or plan to sell real estate or stock that has large gains, one might want to reflect that taxable gain in the 2020 tax year. The exception is if you work with a sophisticated tax planner who needs all of 2021 to do powerful tax planning.

Establish your own Solo 401(k) plan before year-end if you are a small business owner. This Solo 401(k) is limited to those who are either the sole owner or whose spouse works in the business. One does NOT want to have any non-family W-2 wage employees. In 2020, the maximum annual contribution is \$57,000 if the owner is younger than age 50 and \$63,500 if the owner is age 50 or over.

Of course, you must have at least this much net profit, and normally substantially more in order to contribute the maximum amount. You must remember that you are both the employee and the employer. Just like a normal 401(k), the

employee can contribute a maximum of \$19,500 in 2020 for those under age 50 and \$26,000 if you are age 50 or older. In addition, the employer side of the contribution is limited to either 25% of your wages received; or 20% of your net self-employment income (business profits less half of your Self-Employment tax).

A Solo 401(k) typically costs \$500-1,000 to set up if you want a truly 3rd-part administrator that is not trying to sell you Wall Street investments. You must formally elect to make the actual employee deferral contribution by 12/31/2020 but the actual employee and employer contributions can be made up until your tax return filing due date (4/15/2021), or 10/15/2021 if an extension was filed.

**Free Information on Income Tax Savings, Retirement Planning, and Solar Business Investments** can be found at [www.drharoldwong.com](http://www.drharoldwong.com) or [www.solarbusinessinvestments.com](http://www.solarbusinessinvestments.com)

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**Contact Dr. Harold Wong at  
(480) 706-0177 or  
[harold\\_wong@hotmail.com](mailto:harold_wong@hotmail.com)  
to RSVP.**

Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.