HARDWOOD FEDERATION
1111 Nineteenth Street, NW, Suite 800, Washington, D.C. 20036
Phone: 202-463-2452 • Fax: 202-463-4702
www.hardwoodfederation.com

August 1, 2021

The Tax Debate Heats Up

by Dana Lee Cole
Hardwood Federation Executive Director

Like countless other spots in the U.S., the weather in D.C. is hot! And becoming increasingly heated, are negations between both ends of Pennsylvania Avenue about how to move President Biden's agenda through an evenly divided Congress.

Included in the mix are the Administration's aggressive policy priorities around "social infrastructure" and climate change that are embodied in President Biden's American Jobs Plan and American Families Plan. You may recall that there are a number of tax proposals embedded in these plans that impact the business community.

For our sector, there is nothing specific to S-Corporations or other pass-through tax structures. However, two particular provisions have raised alarms across all groups representing small- and medium-sized businesses.

- One includes language ending a long-standing capital gains tax break on inheritances known as "step-up in basis." *(See example)*
- The other is being characterized as a Second Death Tax. The proposal would raise the capital gains tax rate from 23.8 to 43.4 percent. Any assets that you have are considered sold the day you die with, the first million being exempt. In other words, the 43.4 percent rate would be imposed on your final tax return.

Step-Up in Basis Tax Break Example

Suppose a couple with one dependent bought some stock 20 years ago for $10,000. After the couple passes away, the dependent inherits the stock—which is now worth $100,000—and immediately sells the stock for $100,000. The amount of gain to be taxed is calculated by subtracting the basis (typically the amount paid for the stock) from the amount received for the sale.

With the "step-up in basis," the stock automatically jumps from $10,000 to $100,000; the selling price and the basis are identical; there is nothing to tax. Without a "step-up in basis," the gain would be $90,000 ($100,000 – $10,000), and the dependent would pay capital gains tax on that amount.

Other proposals are floating around out there—Hardwood companies have expressed concern about the proposed elimination of 1031 exchanges, which defer certain tax payments on property-investment gains of over $500,000—and the Hardwood Federation will continue to do our best to track those that have the most widespread impact on the hardwood industry.

The good news is that these proposals have unified the business community in opposition. And an impressive number of Democrats have come out against them, as well. However, time is of the essence for the President and his team.

Historically, major initiatives sought by a new administration typically occur in the first two years. And with many political prognosticators predicting the House may flip to Republican control after the 2022 elections, the Biden Administration and House and Senate leadership are laser focused on moving key pieces of these two plans—a full court press in Congress—because the window-for-action could be rapidly closing.

As always, the Hardwood Federation will remain vigilant, and will continue our frequent conversations with key Democrat and Republican allies, in both the House and Senate, about our sector’s concerns and priorities.