

# Biden proposes big spending, taxes with the American Families Plan



Jay Ritter, Senior Equity Strategist, BMO Wealth Management - U.S.

Yung-Yu Ma, Ph.D., Chief Investment Strategist, BMO Wealth Management - U.S.

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President Biden recently rolled out the American Families Plan (AFP), a \$1.8 trillion proposal that is billed as “an investment in our kids, our families and our economic future” (aka “human infrastructure”). The announcement comes on the heels of new administration’s proposed \$2.25 trillion American Jobs Plan (AJP), which focuses on physical infrastructure, jobs, domestic manufacturing and clean energy. Clearly, President Biden aims to hasten the democratic agenda in advance of the 2022 midterm elections when democratic “control” of Congress looks at risk. This current proposal will almost certainly need the support of all 50 Senate Democrats to pass since zero Republicans are expected to sign on to the accompanying tax increases.

## Where will the money be spent?

On the spending side, the AFP proposes to increase federal spending by \$1 trillion over 10 years to cover the cost of various social programs focusing on education, childcare, paid family and medical leave and nutrition; and it would provide another \$800 million in expanded Child Tax Credits (CTC) and Earned Income Tax Credits (EITC) and ACA medical premium subsidies (See table below).

American Families Plan	
Spending (and Tax Credits)	Cost (over 10 years) (\$ Billions)
Extend CTC through 2025, Expanded CDCTC, EITC, ACA Subsidies	\$855
Universal Pre-K	\$200
Free Community College	\$109
Increase Pell Grants, Funding for Student Retention	\$142
Additional Funding for Minority Educational Institutions	\$46
Childcare Funding	\$225
Nutrition Support (SNAP, School Lunches)	\$45
Family and Medical Leave	\$225
Other Spending Items and Adjustments	(\$47)
<b>Total Spending</b>	<b>\$1,800</b>
Taxes	Revenues (over 10 years) (\$ Billions)
Restore Top Individual Tax Bracket to 39.6% (from 37%)	\$100
Tax Capital Gains and Dividends as Ordinary Income (> \$1 million)	\$370
Apply 3.8% Medicare Tax for Incomes above \$400K	\$200
Close Carried Interest Loophole, Eliminate 1301 Exchanges	\$30
Extend Limitation on Large, Excess Business Losses	\$100
More Aggressive Tax Enforcement (Net of IRS Costs)	\$700
<b>Total Tax Increases</b>	<b>\$1,500</b>
<b>Net Cost</b>	<b>\$300</b>

Source: US Government Fact Sheet, Congressional Budget Office, Committee for a Responsible Federal Budget

## How will the AFP be paid for?

To pay for the AFP, the Biden Administration would raise \$1.5 trillion in taxes on the highest income Americans, especially those earning over \$1 million per year but also families making more than \$400k. The White House’s Fact Sheet States, “In combination with the American Jobs Plan, which produces long-term deficit reduction through corporate tax reform,

all of the investments would be fully paid for over the next 15 years.”<sup>1</sup>

More specifically, the tax increases include the top income tax rate increasing from 37% to 39.6%. Dividends and capital gains for households earning above \$1 million would be taxed at the top 39.6% rate, up from 20% currently. The carried interest exception for hedge funds and private equity managers is targeted for removal. Additionally, and perhaps more contentious, the basis step-up for inherited assets would be eliminated although income thresholds and exemptions for family businesses would narrow the impact somewhat. The plan would also put an end to deferring capital gains tax by way of “1031 exchanges” for real estate investors. In Biden’s plan, real estate gains over \$500k would be subject to capital gains tax. And, finally, the largest line item of expected tax revenue – and the one most reliant on assumptions – derives from aggressive enforcement of tax laws enabled by beefed up IRS resources.

We believe some of these provisions are likely to be watered down in any final legislation. For example, the top capital gains and dividend tax rates are likely to come in somewhere between the current rates and those proposed. It is well understood that Senate passage would not withstand a single Democratic dissent, but even the House majority is slim with many hailing from wealthy districts.

## What are the next steps?

The plan Biden presented omits many of the details that will have to be worked out by the House and Senate. It is possible that the AFP will be combined with the AJP to create one massive \$4 trillion piece of legislation. While the participation of Republicans may not be required for passage under reconciliation, some compromises may be necessary to gain the support of more moderate Democrats (especially West Virginia Senator Joe Manchin). Congress will begin addressing the budget issues in May and June and the size of the bill will be clearer by mid-June when it could be introduced by the House. Speaker Pelosi would like to get something passed by early July, ahead of the 37-day August recess. If not, the bill could slip to September.

Biden’s approval rating (as of 05/04/2021) is 53.5% according to fivethirtyeight.com, which falls middle of the pack for presidents since 1980 at similar points in their first terms.<sup>2</sup> If Democrats push too hard on a controversial agenda, they risk being punished in

the 2022 mid-term elections, especially since Biden was portrayed as a moderate. In all, it’s likely that the final bill will be scaled down and contain less aggressive tax increases than currently presented.

<sup>1</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/>

<sup>2</sup> <https://projects.fivethirtyeight.com/biden-approval-rating/>



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