What’s in $1.8 Trillion Biden Spending Plan Funded by Taxes (1)

- Plan includes funding for child care, education, tax credits
- Biden would pay for plan with higher taxes, focused on wealthy

By Laura Davison | April 28, 2021 6:43AM ET

President Joe Biden’s administration on Wednesday unveiled a $1.8 trillion, 10-year plan to ramp up federal support for American families, with a major expansion in spending on child care, paid leave and education.

The “American Families Plan,” which Biden will tout in a joint address to Congress Wednesday night, is funded in part by $1.5 trillion of tax hikes on the wealthiest Americans. The proposals still face major changes in Congress, with Republicans set against higher taxes and Democrats having their own priorities.

Ambitious as it is, Biden’s program omits some of his campaign-trail agenda items and lacks any move to address a cap on state and local tax deductions that Democrats from high-tax states want removed. Following are key elements to the plan:

**Income Taxes**

Biden is calling to raise the top personal income tax rate to 39.6% for those among the highest 1% of earners. “No one making $400,000 per year or less will see their taxes go up,” the White House said in a fact sheet on the plan. Still, the document didn’t specify whether that threshold applies to both single earners as well as married couples.

**Capital Gains**

Biden would increase the capital gains rate to 39.6% from 20% for those earning $1 million or more -- 0.3% of taxpayers or roughly half a million households -- equalizing that rate with the top marginal income tax rate. A 3.8% Obamacare tax on investment would then be added on top, meaning the richest would pay a 43.4% federal rate on realized investment returns. State taxes could put the combined tax bill north of 50%.

The plan would also end a long-standing capital gains tax break on inheritances known as “step-up in basis,” which allows heirs to use the market value of assets at the time of inheritance rather than the actual purchase price as the cost basis for capital gains when the holdings are sold.

The proposal exempts the first $1 million of gains from the end of stepped-up basis, while there’s no tax if the gains are used for charitable donations. There will also be “protections so that family-owned businesses and farms will not have to pay taxes when given to heirs who continue to run the business.”

**Carried Interest, Real Estate**

The carried interest tax break used by private equity and hedge fund managers to lower their tax bills would be eliminated under Biden’s plan. In what critics call a loophole, that allowed for a share of income being classed as a capital gain, with an associated lower tax rate.
The administration also would eliminate a real estate tax break for when property investors sell one holding for a more expensive one.

**IRS Audits**

The plan calls for increased audits on high-earners that could collect an additional $700 billion in tax revenue, with funding increases for the Internal Revenue Service. Biden is also proposing to require banks to report information on account flows, so that earnings from investments and business profits are reported to the IRS like wages are.

**Child Tax Credit**

Biden is proposing to extend through 2025 an enhanced version of the child tax credit. The credit, increased for 2021 in the March pandemic-relief package, provides a $3,600 credit for children under six and $3,000 for those six and older. The IRS is slated to send the payments regularly, which amounts to $250 or $300 per child per month, depending on their age. Congressional Democrats are pushing Biden to make this change permanent.

**Child Care**

The plan includes $225 billion to help low-income families pay for child care, provide funding to child care providers and boost wages for child care workers to $15 an hour. Biden is also proposing to make permanent a tax credit for child care costs that would reimburse families for care of children 12 and under with a credit worth up to $4,000 for one child or $8,000 for multiple children.

**Paid Leave**

Biden would create a $225 billion national paid family and medical leave program. It would provide partial wage replacement for workers who take time off to care for a newborn or an ill family member, recover from a health issue, deal with a family member’s military deployment, address domestic violence issues or deal with the death of a loved one. The plan guarantees 12 weeks of paid parental, family, and personal leave by year 10 of the program. It provides workers with two-thirds of average wage replacement per month, up to $4,000. Lowest-wage workers will get pay replaced at 80%.

**Health Tax Credits**

The plan would pump $200 billion into an expansion of tax credits for households that buy health insurance on their own, saving families an average of $50 per person per month. Biden’s outline said nine million people would save hundreds of dollars per year on their premiums, and four million uninsured people will gain coverage.

**Low-income Tax Credits**

An expansion of the earned-income tax credit for childless workers who earn wages below the poverty line would be made permanent under Biden’s proposal. The expansion roughly triples the value of the benefit for those individuals, the fact sheet said.

**Pre-School**

The plan includes $200 billion for free universal pre-school for all three- and four-year olds. Pre-kindergarten teachers will earn at least $15 per hour, and those with academic qualifications will receive pay comparable to that of kindergarten teachers.
College Tuition

The plan would provide $109 billion to cover two years of tuition-free community college for students and an $85 billion investment in Pell Grants, to aid students pursuing up to a four-year degree. The plan also includes $62 billion to improve college retention rates for disadvantaged students and pump $46 billion into historically black universities, tribal colleges and other institutions that serve minorities.

Nutrition Assistance

There is $45 billion to improve the health of school meal programs and provide food for K-12 students during summer breaks in Biden’s proposal.

Unemployment Systems

The proposal earmarks $2 billion to modernize the unemployment insurance system, which has been subjected to fraud and technical challenges during the spike in unemployment caused by the pandemic. Biden didn’t call for an automatic extension of jobless benefits as some Democrats had requested, but he pledged to work with Congress automatically extend benefits based on economic conditions.

Notably Omitted

The plan did not include any references to expanding the $10,000 state and local tax, or SALT, deduction. More than 20 House Democrats have said that tax break must be boosted to support Biden’s economic agenda. The proposal also didn’t include an expansion of the estate tax -- a long-standing Democratic priority that Biden campaigned on. Nor was there an enlargement of Medicare or the drug-price reduction measures that many congressional Democrats have pushed for -- though Biden’s outline said both issues were priorities for him.