

Biden's looming tax hike — and what it means for business owners, investors

There are likely only a handful of people out there who were alive during 1929's Great Depression, which was triggered by a banking panic and collapse in the money supply.

But you boomers, and maybe even remaining silent gens, will remember the 1981 recession caused by the energy crisis following the Iranian revolution, and certainly, the Oct. 19, 1987, "Black Monday" crash that caused the stock markets to fall by almost 23% in one day, creating economic fears around the world. And, of course, still a factor is the COVID-19-induced downturn that started in 2020.

Now, imagine if in any of these cases you could have seen what was coming. What would you have done? What if you knew the value of the cash you would ultimately receive for your assets was going to fall on Jan. 1, 2022 by almost the same amount as they would have on Oct. 19, 1987?

We are facing a similar pivotal economic moment right now. This one may not be a recession, per se, but one which will likely be a meaningful shift in the markets and in company valuations caused by a sweeping tax increase proposed by the Biden administration — the first major tax hike since the early 1990s.

So, what is the rationale for this specific tax proposal? It needs to bankroll the trillions in new stimulus and government aid programs that started exponentially racking up the national tab in 2020, and the I.O.U. that will be magnified by a new infrastructure plan coupled with expanding new social programs. It's all part of a revenue-raising plan that would also include things like eliminating incentives that allow companies to move profits overseas and raising individual income tax rates to over 50%.

It's a looming change that, if it happens as



proposed now, would radically alter wealthy Americans' investment strategies, and test all those differing theories about the relationship between taxes and economic expansion.

Here's a look into the crystal ball you didn't have in advance of those other economic downturns previously mentioned: If this goes through in anything close to its present form, business owners and investors who've thought about selling have basically six months to get it done without facing a massive increase in the capital gains tax.

Which businesses will it hit hardest? Consider that the vast majority of investors and owners of midsize companies in this country will be directly affected. And those are the people — those whose businesses are worth more than \$1 million — who need to be paying attention.

That's because the proposed increase in the capital gains tax is huge. After the previous administration lowered the rate from 25% to 20%, Biden would jack it up to almost 40%, a significant reversal for investors and business owners that benefited from the 2017 Trump tax cuts.

Here's some math: If you sold a business after the law went into effect and had \$50 million in capital gains, that would be an estimated \$10 million additional in taxes, plus whatever is taken out by local governments, which may be emboldened by the Biden initiative to raise their taxes, as well.

Hold or fold?

So, I'm not going to tell you that either is the wrong answer, but do you hold or fold? Maybe keep the business in the family for another generation or two? Or do you get out now? Or, do you move too late and pay the extra \$10 million in taxes? Oh, and the chances of the IRS collecting that money? Much better if Biden's plan goes through for \$80 billion more in funding for IRS audits of the wealthy and corporations.

How late is too late? If the legislation is not stalled or scaled back by centrist Democrats in a closely divided Congress, it's very, very soon. That's because it typically takes six months for an assembled team of lawyers, accountants, and investment banking experts, like we have, to close a deal. Which means, if the tax increase were to go into effect Jan. 1, 2022, your time is almost up.

That's why my firm, which makes such business transactions happen, expects an absolute blizzard of business owners looking for such expertise between now and then. Because that six-month "close-the-deal" time bomb starts ticking June 30.

All of this is why, if you can see what is on the horizon and have any intention of selling, this moment — one of the most pivotal financial changes in recent memory — is when you need to get cracking to assemble a team of top-notch lawyers, tax advisors, investment bankers, and asset managers to get the job done right and on time. And these people are going to be very busy very soon.

So, I'm saying: You might want to pick up the phone now.

Christopher Helmrath is the managing director of SC&H Capital, the investment banking and advisory practice of SC&H, headquartered in Sparks.