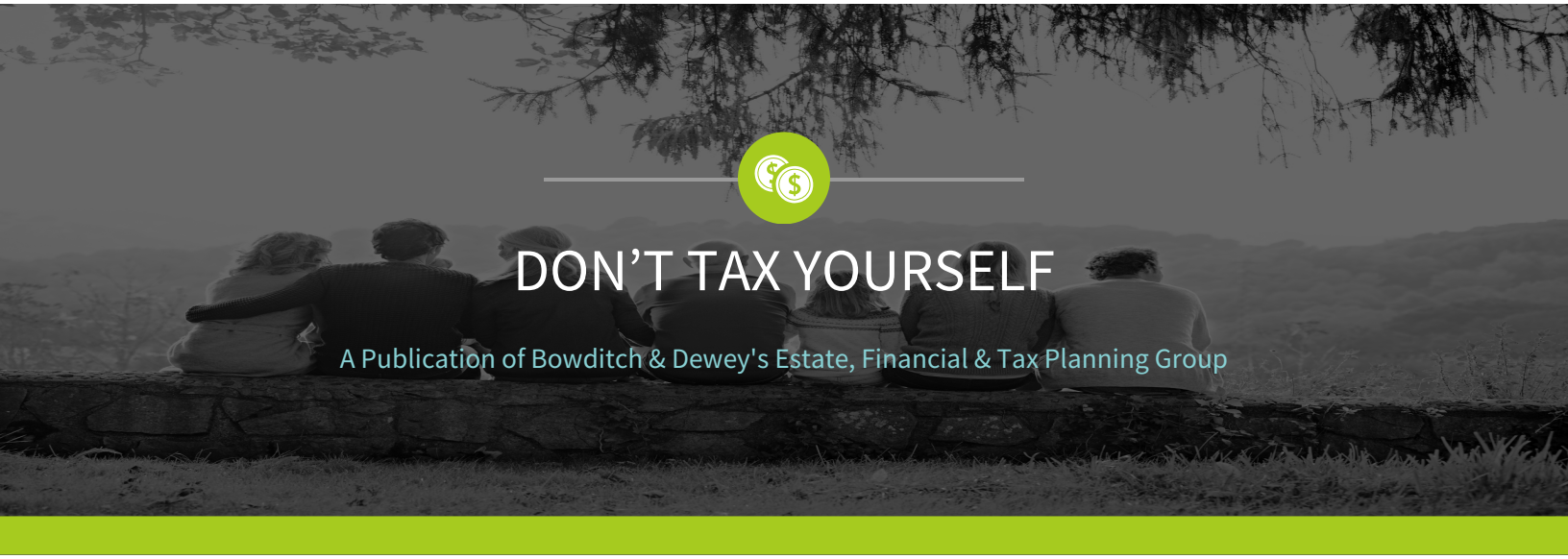

DON'T TAX YOURSELF

A Publication of Bowditch & Dewey's Estate, Financial & Tax Planning Group

Reinvigorating the Estate Tax System: Proposals from the 2020 Democratic Presidential Candidates

BY BOWDITCH & DEWEY • JANUARY 27, 2020

The estate tax is a tax on the transfer of wealth during life and at death. With the passage of the 2017 Tax Cuts and Jobs Act, the individual federal estate tax only reaches estates worth more than $11.4 million (by filing an estate tax return to elect portability, married couples can pass more than $22 million free of federal estate taxes). However, some states, like Massachusetts, have their own estate tax system. In Massachusetts, the estate tax affects those who die with $1 million or more, with tax rates between 5.6% and 16%.

The 2020 Democratic presidential candidates challenging President Trump have various proposals for reinvigorating America's federal estate tax system which currently only affects 0.07% of estates (2019).

Joe Biden, as well as other candidates, have proposed eliminating the step-up in basis for inherited assets. When a person dies owning or controlling assets, those assets are subject to estate tax, but receive a basis adjustment to fair market value as of the date of death. This can wipe out built-in gains on the assets and reduce capital gains tax when the beneficiaries later sell these assets. The elimination of the step-up in basis could require capital gains to be taxed at death. This is what happens in Canada. Or require that beneficiaries pay tax on capital gains whenever the assets are sold.

Senator Bernie Sanders has plans to create a more progressive estate tax. Currently, the federal estate tax is levied at a top rate of 40%. Under Sander's plan, estates valued from $3.5 million to $10 million would be taxed at a 45% rate; estates valued from $10 million to $50 million at a 50% rate; estates valued from $50 million to $1 billion at a 55% rate; and estates valued at over $1 billion at a 77% rate.

Senator Elizabeth Warren also has called for a tougher estate tax. She has suggested lowering the exemption back down to $3.5 million and raising the tax rate to 55%.

In addition, Senator Sanders has floated the idea of ending tax shields for so-called dynasty trusts, which allow the

©2026 Bowditch & Dewey LLP. All Rights Reserved.

wealthiest Americans to transfer assets from generation to generation in perpetuity without paying estate or gift taxes.

Another way to tax wealth has been proposed primarily by Senators Sanders and Warren. Both are calling for “wealth taxes” to be imposed on the ultra-wealthy 0.1% of American households. Warren’s wealth tax will apply to those worth $50 million or more – 2% tax on every dollar above a net worth of $50 million and 3% tax on every dollar above a net worth of $1 billion. Sanders’ plan is more aggressive and it would affect more households and levy a higher marginal tax rate.

With the election still several months away, stay tuned to see which proposals will ultimately be implemented.

©2026 Bowditch & Dewey LLP. All Rights Reserved.