

Meridian Client Update

What's Inside President Biden's FY23 Budget Proposal – on Taxes, Share Repurchases and Executive Share Sales

President Biden's fiscal year 2023 budget includes provisions relating to individual and corporate income taxes, corporate share repurchases and executive share sales. These provisions represent the President's wish list for future legislation. The passage of any such future legislation is far from certain.

The President's 2023 budget proposes to:

- 1) Increase the top marginal tax rate for individual and corporate income;
- 2) Impose a tax on share repurchases; and
- 3) Link a company's share repurchase program and an executive's ability to sell company shares following a share repurchase (the "Proposals").

These changes are not part of any current legislation but require future legislative action. Some of the Proposals mirror certain of the tax changes included in the President's failed Build Back Better legislation.

If the past is any guide to the future, the President may face an uphill battle to obtain passage of any future legislation that includes these Proposals.

Below are the specifics (to the extent provided in the budget) of the Proposals.

Proposed Income Tax Changes

The President's budget includes the following proposed changes to the tax code:

- **Millionaire/Billionaire Individual Income Tax** – 20% minimum individual income tax would be imposed on income of households with a net *worth* of more than \$100 million (determined as assets minus liabilities). In addition, the 20% tax would be imposed on **unrealized** gains (including ordinary gains) of such households. Payments of the minimum tax would be treated as a prepayment available to be credited against subsequent taxes on realized capital gains to avoid taxing the same amount of gain more than once. The proposal would be effective for taxable years beginning after December 31, 2022.

- **Increase in Top Marginal Individual and Corporate Income Tax Rates**¹ – Top marginal income tax rates for individuals and corporations would be 39.6% (up from 37%) and 28% (up from 21%), respectively. The top marginal individual income tax rate would apply to taxable income over \$450,000 for married individuals filing a joint return, and \$400,000 for unmarried individuals. After 2023, the thresholds would be indexed for inflation. The proposals would be effective for taxable years beginning after December 31, 2022.

Share Repurchase Proposals

The President's budget includes the following proposals relating to share repurchase programs and linking executive share sales to repurchase programs.

- **Tax imposed on share repurchases** – 1% tax would be imposed on share repurchases by public corporations.²
- **Restrictions on Executive Sale of Company Shares** – Executives would be prohibited from selling company shares for a period of three years following a corporate share repurchase.

Meridian comment. Given this is an election year, Congress may move cautiously on the President's wish list which may prove unpopular with the electorate in both blue and red states and Congressional districts.

* * * * *

The *Client Update* is prepared by Meridian Compensation Partners' Governance and Regulatory Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-235-3605 or dkalfen@meridiancp.com.

This report is a publication of Meridian Compensation Partners, LLC, provides general information for reference purposes only, and should not be construed as legal or accounting advice or a legal or accounting opinion on any specific fact or circumstances. The information provided herein should be reviewed with appropriate advisors concerning your own situation and issues.

www.meridiancp.com

¹ These proposed tax changes were included in the failed Build Back Better legislation.

² Id.