# Planning for the Unknowable

If 2020 has reminded us of anything, it's the old Yiddish phrase: "Man plans, and God laughs."

Who among us has not changed plans this year for reasons that could never have been anticipated one year ago? Weddings, funerals, business closures, job losses, vacations, family celebrations, holidays, stock market crashes, stock market rallies, health care decisions, etc. I remember when you could not go in a bank if you were wearing a mask, and now they won't let you in without one.

Unquestionably, the single biggest unknowable that HCM clients are focused on right now is the election and how the differences between President Donald Trump and Former Vice President Joe Biden (and the political parties they represent) will affect their retirement plans when it comes to tax policies, spending priorities, and overall economic strategies.

As forward-looking tax-advisors who develop long-term tax plans, we need to know what the rules will be for 2021 and beyond. And as investors planning for long-term retirement security, we want to gain a clear picture of the forces that will drive market volatility and investment returns both before and after the election.

## Trump's Tax Position

The President has campaigned to preserve his signature 2017 tax legislation, the Tax Cuts and Jobs Act (TCJA). The TCJA lowered tax rates for individuals at most income levels and roughly doubled the standard deduction. As a result, far fewer taxpayers now itemize deductions.

The federal estate and gift tax exclusion was doubled, reaching $11.58 million in 2020. This change took the estate tax off the table for all but the wealthiest Americans.

For businesses, the TCJA reduced corporate taxes to a flat rate of 21%, repealed the corporate alternative minimum tax, and enhanced deductions for capital investments. Pass-through businesses (including many small businesses and self-employed individuals) received a new deduction equal to 20% of their "qualified business income."

Regarding second-term proposals, the President has expressed support for additional stimulus in the way of middle-class tax cuts, reductions in the capital gains tax, expansion of the Opportunity Zones program, and tax credits for companies that bring jobs back from China.

## Biden's Tax Position

Former Vice President Biden has proposed tax increases for corporations and high-income taxpayers to help pay for climate, infrastructure, R&D, health, and education plans.

Mr. Biden would return the top personal bracket to 39.6%. The tax benefit of itemizing deductions would also be limited for those with incomes above $400,000. The 20% deduction for qualified business income would phase out above the $400,000 threshold. A TCJA provision that caps the itemized deduction for state and local taxes at $10,000 would be repealed. Targeted tax credits would be offered to help make childcare and housing more affordable for the middle class.

Mr. Biden also wants to end the preferential tax treatment of long-term capital gains and qualified dividends for high-income taxpayers. Capital gains tax rates for high-income taxpayers in the Biden plan would more than double and be taxed at ordinary income rates of 39.6% instead of today's 20% rate (plus the 3.8% net investment income tax). The step-up in basis for inherited assets would be eliminated, making appreciation and inflation gains that occurred during a decedent's lifetime, potentially over decades, taxable to their children. This new proposal could impose higher taxes on everyone who inherits, not just the wealthy.

To help fund Social Security, Mr. Biden would impose additional payroll taxes on income earned above $400,000. He has proposed raising the corporate tax rate from 21% to 28%, reinstating a 15% minimum tax on profits exceeding $100 million, and increasing taxes on foreign profits.

## Election anxiety

Beyond tax policy, the two candidates tend to favor different policies regarding international trade, financial regulations, energy, and health care, among others.

Another economic wildcard that hinges on the election's outcome is the scope of fiscal stimulus that might be passed to help consumers, businesses, states, and local governments.

Emotions are running high, but it's generally unwise for long-term investors to upend their investment strategies based on fears around an election or other unknowable event outcomes. We have neutralized our portfolio risk and are preparing for shifts into three key areas driven by renewed stimulus, when it arrives, and a better understanding of future tax policy. Keep in mind, when it comes to tax policy, the President alone has very little power.

## Invitation to Contact Your HCM Advisor

We want to hear from you. If you have experienced any changes in your life that may impact your financial situation, be sure to let us know. It's always best to schedule regular conversations so you can stay on top of any changes that may affect your planning, tax, and investment objectives. We would love to meet in person after the current situation normalizes, but until then we are happy to schedule conference calls/video conferences or whatever else works best for you.

Also, as we have offered many times, if there is someone you care about that needs the type of help we can provide, please connect us. We will do anything we can to assist, no strings attached.

As always, we appreciate the opportunity to work with you, and we thank you for your confidence.

Sincerely,

Michael T. Hengehold, CPA/PFS MST RICP®

P.S. Please look for announcements regarding HCM's Monthly Town Hall Live Chats and HCM's Quarterly Investment Review Webinar in your email inbox.