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# How Will Biden's New Infrastructure Plans Affect Investors?

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The twin infrastructure proposals President Biden introduced in April—the American Jobs Plan and the American Families Plan—have given us a clearer picture of his expansive vision of the role of government in rebuilding the United States for the 21st century. The American Jobs Plan (\$1.9 trillion) follows a more traditional definition of infrastructure, with its plans to fix and replace roads, bridges, and water systems, while also providing a blueprint for advancing infrastructure in the same direction as the economy at large—5G, electric vehicles, and clean energy. The American Families Plan (\$1.8 trillion)—an investment in human capital with support for education, child care, national paid leave, and expanded tax credits—is guided by a less traditional definition of infrastructure. The administration proposes spending far more than other recent Democratic administrations, despite being perceived as the more moderate choice among the vast field of 2020 Democratic candidates, some of whom grabbed headlines with more radical policy proposals.

## How do we pay for it all?

How does President Biden plan to pay for the approximate combined \$4 trillion cost of these plans? Tax increases. The Jobs Plan proposes financing spending by an increase in the corporate tax rate. Concurrently, Treasury secretary Janet Yellen proposed a global minimum corporate tax to discourage the regular practice of corporations seeking tax shelter overseas. The Families Plan proposes a tax increase on household income for earners over \$400,000 and taxing capital gains at regular income rates for earners over \$1 million, in addition to lowering estate exemptions and abolishing cost-basis step-up on inherited assets.

In an era when we've become used to politicians not meaning what they say, President Biden telegraphed these proposed tax increases last year. President Biden is following through on what candidate Biden proposed almost to the letter.

## What does it all mean?

Investors have shown renewed interest in what this will mean for their portfolios. When it became clear Biden was the front-runner for the Democratic nomination last year, we analyzed these very proposals in both a series of [blog posts](#) and a [summary research brief](#).

Focusing on the tax changes in the American Families Plan, which more directly affect equity investors, we found the following results related to the increase in tax rates and the elimination of preferential treatment for long-term capital gains.

- > Higher tax rates and the loss of preferential treatment for long-term holdings generally increase the focus on and the value of tax management.
- > The value of tax management varies by market conditions, but the proposed changes combine for an average increase in preliquidation tax alpha of around 0.40%.
- > Post-liquidation tax alpha also varies by market conditions but remains positive in most rising equity environments, but with greater tax drag at liquidation from the loss of preferential treatment.

In the chart below, we republish the expected range of tax alpha in a variety of tax regimes and for a variety of market returns in a typical stock-volatility environment based on 10,000 simulated trials of optimized large-cap portfolios against a low-turnover benchmark, rebalancing quarterly over 10 years. The average stock volatility was varied in the simulation as well; see the aforementioned research brief for further details.

Simulated tax alpha for three different tax regimes in various return environments



Source: Parametric, 2021. Tax alpha is the difference between a portfolio's after-tax excess return (net of fees) and its pretax excess return (gross of fees). A portfolio's excess return is the difference between the portfolio's return and that of its benchmark.

What lies ahead?

Although the full details of Biden's plans have become clearer, significant uncertainty remains as the legislative process begins. The question still exists whether Congress will vote on a combined bill or break these bills up into two or more parts and vote on them separately. Many experts feel that the administration doesn't want to put these proposals up for multiple votes and may spend much of the summer negotiating and hashing out details of a combined bill, perhaps aiming for a vote before the August recess. Others believe that's an aggressive timeline and a vote is unlikely until Congress resumes later in the year.

The effective date on potential capital gains tax rates could be applied prospectively, but we can't rule out the possibility of a retroactive tax increase completely. Legislators could set an effective date before any law is passed, ensuring any revenue raised is credited to the bill and the spending within it and prohibiting taxpayers from proactively taking gains in the lower rate regime. Although this is uncommon, it's not unprecedented.

In his first address to a joint session of Congress in late April, Biden chose his words carefully as he described a sweeping social agenda aimed at addressing inequality in this country. He spoke of restoring competitiveness and creating jobs, as well as appealing directly to working-class Americans, many of whom did not vote for him. He avoided giving the perception that this was a wish list of liberal pet projects. That said, if Biden is to get this bill passed, it's likely to be through reconciliation without a single Republican vote. The plans as they stand face a difficult road ahead with the moderate Democrats that wield an extraordinary amount of political power in the Senate.

The bottom line

The Biden administration's plan to raise the corporate tax rate to 28% is unlikely to go through as proposed, nor will long-term capital gains rates likely be eliminated for the wealthy. More moderate outcomes may be more palatable, and Biden has framed the twin infrastructure proposals as blue-collar jobs bills. That might appeal to moderate senators' constituents, who have fresh memories of outsized stimulus in 2020 and early 2021 that put government payments directly in their pockets. Biden may be betting that those constituents are willing to put even more faith in the role of government and has framed the debate to give elected officials just enough political shelter to vote yes to a revised, compromised bill and still protect Senate seats up for re-election in 2022.

Although the futures of the American Jobs Plan and American Families Plan are unwritten, the ambition of both plans is likely to be scaled back as they work their way through Congress. While that may mean their impact won't be as sweeping as President Biden might like, any negative economic impact is likely to be mitigated as well. This is certainly a time to focus on tax management, but the road ahead should have fewer dangerous curves than some initially feared.

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