



THOUGHTS FROM OUR CHAIRMAN

Four years ago I reminded all that our government has many checks and balances. Most elected officials want to help their constituents. Many also realize there are serious consequences to over-priming the pump with government-sponsored programs. In an effort to address the growing deficit, some suggest increasing taxes may minimize any problematic effects. Others argue higher taxes, both on individual and corporate levels, will ultimately erode the incentives necessary to preserve our capitalistic system. Such checks and balances have, in the past, ultimately brought us through some challenging times.

My associate, Joe Healy, in this Spring issue of As We See It reviews some tax changes currently being debated and offers some useful observations.

*Alfred B. Van Liew*

## Tax Changes on the Horizon? (What does Casey Kasem have to do with it?)

*Joseph J. Healy, CFA*

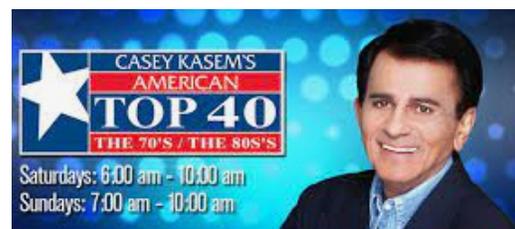
You may have just finished filing your personal taxes by the 5/17/21 Covid-19 extended federal deadline. I'm guessing you were happy to push aside the topic of taxes until next year. But if you want just enough information to sound informed related to proposed tax changes then read on.

Taxes are not an enthralling topic. But with recent talk of potential dramatic changes to our tax code, I felt it merited discussion, or at least a review of what is being discussed. I am not a tax professional nor is this piece meant to be political. My only aim is to outline the most potentially significant federal tax changes now being discussed related to personal taxes.

So what do we know? During this Covid-19 crisis we've seen the US government's response take unprecedented financial steps to support our economy in the wake of a virtual economic shut down. Other proposals, beyond Covid-19 specific relief, are also being discussed to be funded by tax code changes, too. Considering the trillions of dollars in spending, one of the ways to finance this will likely be higher taxes.

Casey Kasem is referenced in the title above. Why? Casey Kasem was the late host of the "American Top 40" countdown, which ran on weekend radio across the US for many years. He was also the cartoon voice of Shaggy from Scooby-Doo. What does he have to do with federal taxes? Honestly, absolutely nothing.

In a perhaps misguided attempt to lighten this topic of taxes I offer my "American Top 40" inspired countdown (circa August, 1978) to outline the Top 5 most potentially impactful federal tax rate changes to personal tax filings now being discussed. So try to imagine listening to the countdown in deejay Casey Kasem's iconic voice.



"Here we go with the Top 5 hits of the nation this week, the best-selling and most-played tax proposals

from the Atlantic to the Pacific! This is Casey Kasem in Hollywood. And next we'll count down the most popular tax proposals in the United States, hot off the record charts of Billboard magazine for the week ending May 14, 2021."

5.) At #5 in the countdown and rising quickly up the charts replacing "Love Will Find a Way" by Pablo Cruise, is – "Higher income tax rate for the highest brackets" - Proposal to increase the marginal tax rate to 39.6% from 37% for some of the wealthiest filers (the precise income thresholds are still unclear). Interestingly, under a sunset provision in the 2017 Tax Cuts and Jobs Act this marginal tax rate is already scheduled to increase back to the old rate of 39.6% after 2025 for the current highest tax bracket without any action. Increasing this tax rate now would accelerate a change already slated to happen in a couple of years but could impact a wider group.

4.) In a new long-distance dedication after last weeks "Desiree" by Neil Diamond topped out and coming in at #4 is – "Higher capital gains taxes" – Currently, the highest tax rate on long-term capital gains is 20%. An increase to 39.6% has been proposed for taxpayers with annual income of \$1 million or more. A couple of thoughts come to mind. At a certain level hikes in the capital gains rate may act as a disincentive to sell or realize a gain which could potentially reduce anticipated taxes collected. There will likely be lots of discussion about a compromise rate level. In an historic context, capital gain tax hikes have not typically been retroactive. If that trend continues it could be better for those impacted to take gains prior to a rate hike passage.

3.) We received a letter from a young boy in Cincinnati, Ohio asking us to play a special song in memory of a little dog named Snuggles, here is: "Reduced 1031 Exchange advantages" - 1031 Exchanges allow investors to defer capital gain taxes due upon the sale of an investment property if another "similar property" is purchased with the proceeds. Under the proposed tax change gains above \$500,000 would be taxable at the capital gains tax rate. Some

speculate that could reduce the number of real estate transactions and, as discussed above, could trigger potentially higher capital gains taxes for the wealthy.

2.) Continuing its move up the charts this next groovy tune knocked from her throne the Queen of Disco herself, Donna Summer and "Last Dance", so new at #2 is: "Eliminate the date of death step-up basis exemption" – Currently, the appreciation in value of unsold assets is not taxed when a taxpayer dies. Many aspects of this proposal are still unclear. Exclusions under this proposed change are expected for things like family businesses or farms. Also, imposing both a capital gains tax at death and potentially an estate tax, too, (see #1 below) would be very surprising (some would argue it would represent two taxes on the same assets). So there's some speculation you could see Congress eliminate or change the estate tax as a compromise if the step-up basis exemption was ended.

1.) The hits don't stop till we reach the top! Coming in at #1 with a bullet and dethroning "Three Times a Lady" by the Commodores is: "Reducing the estate tax exemption" to \$3.5 million (and \$7 million for a married couple) to the level it was in 2009. Since 2018 estates below \$11.7 million for an individual or \$23.4 million for married couples are not subject to Federal estate taxation. If the exemption falls this dramatically those with the largest estates may want to sleep with one eye open before the change goes into effect if you don't get along with your heirs.

Hopefully you enjoyed this attempt at comedy or, at the least, it kept you reading. My objective was to make a discussion about taxes more interesting. That may be impossible. Anyways, these proposals may represent a starting point for discussion. With the tight margin in Congress there is little wiggle room to get any legislation passed, never mind something as divisive as tax increases. We doubt anything will come to pass until 3rd or 4th quarter of 2021. We will likely see changes but it is too early in the process to get a sense of any final tax changes.

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