



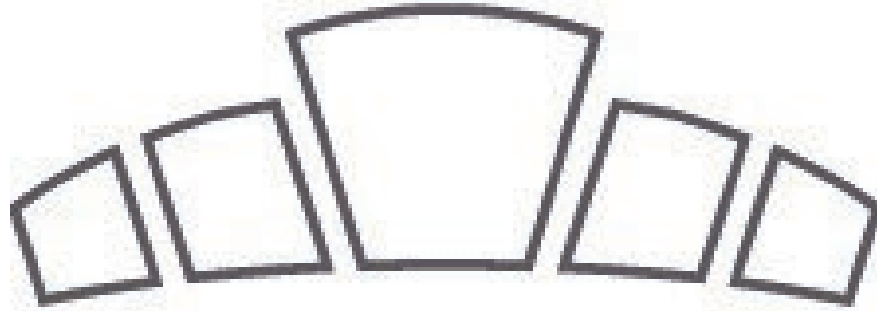
Maximizing your Post-Covid Business Potential

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May 26, 2021





Market Update



Trend 1: In Q2 2021, Investors Embrace Cautious Optimism

Bullish Market Signals

- COVID-19 vaccine roll-out
- Job recovery
- Strong appetite for fiscal stimulus
- Bi-partisan Infrastructure support

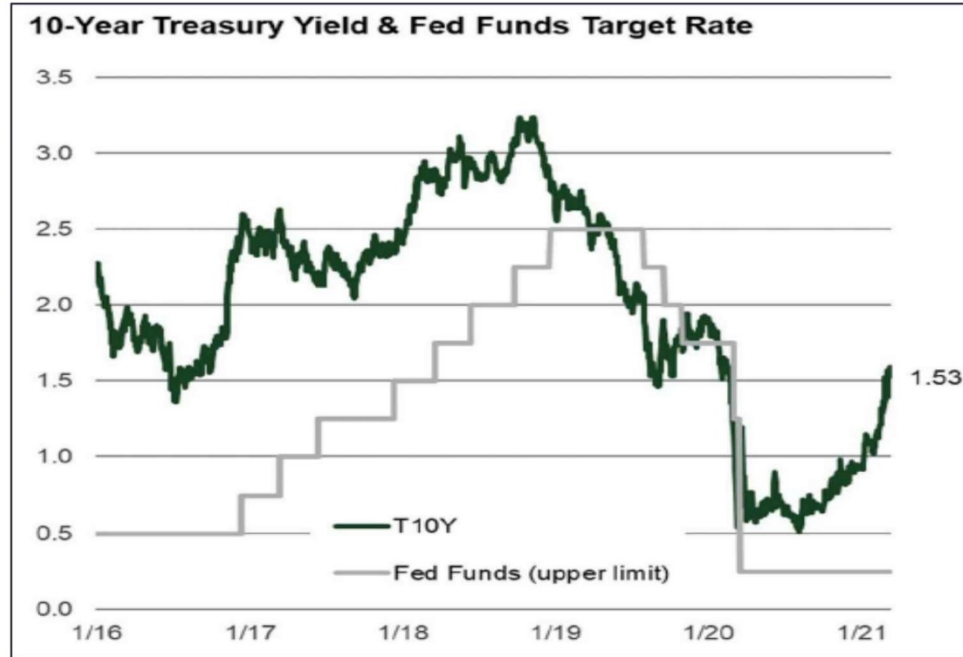


Bearish Market Signals

- Rich market valuations
- Growing inflation concerns
- Real interest rates begin to rise
- Volatility at the single-security level

Takeaway: Investors should be prepared to navigate any market environment

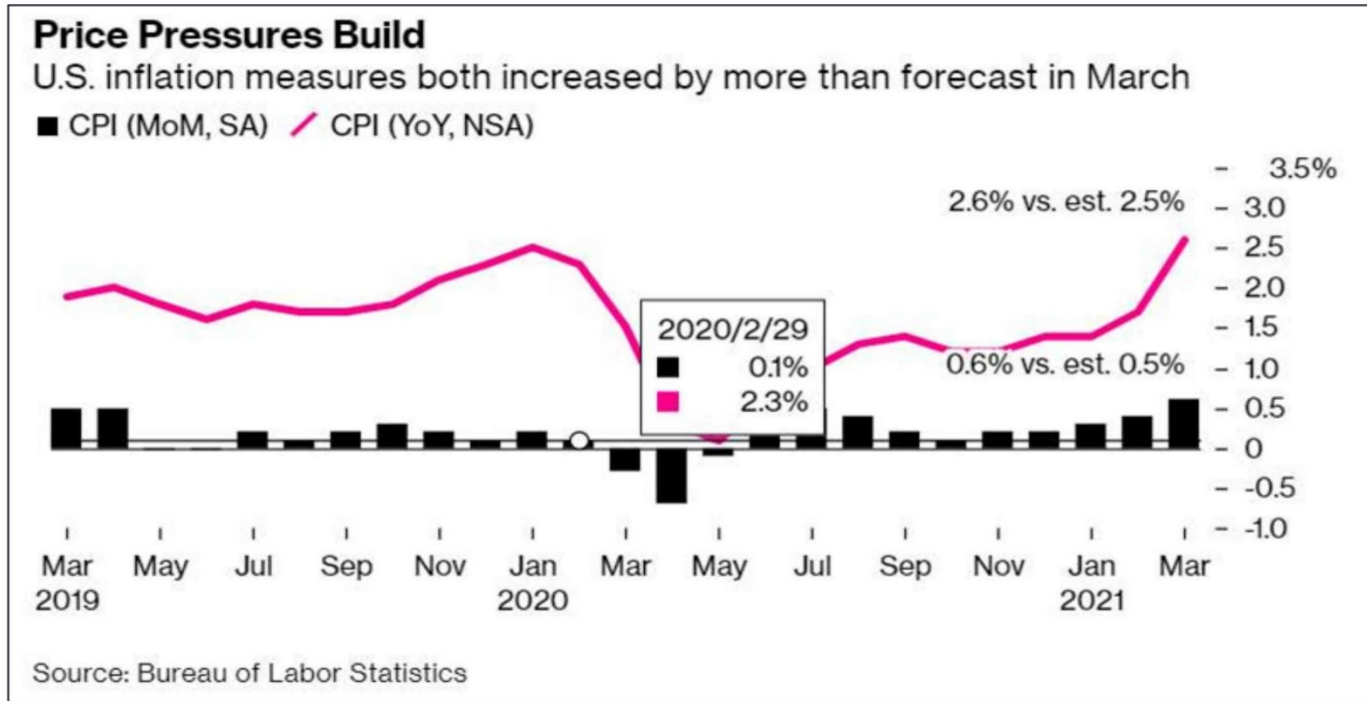
Trend 4: Rising interest rates point to an improving economy



**Source: Saint Louis Federal Reserve Bank, Green Street Research Commercial Property Outlook*

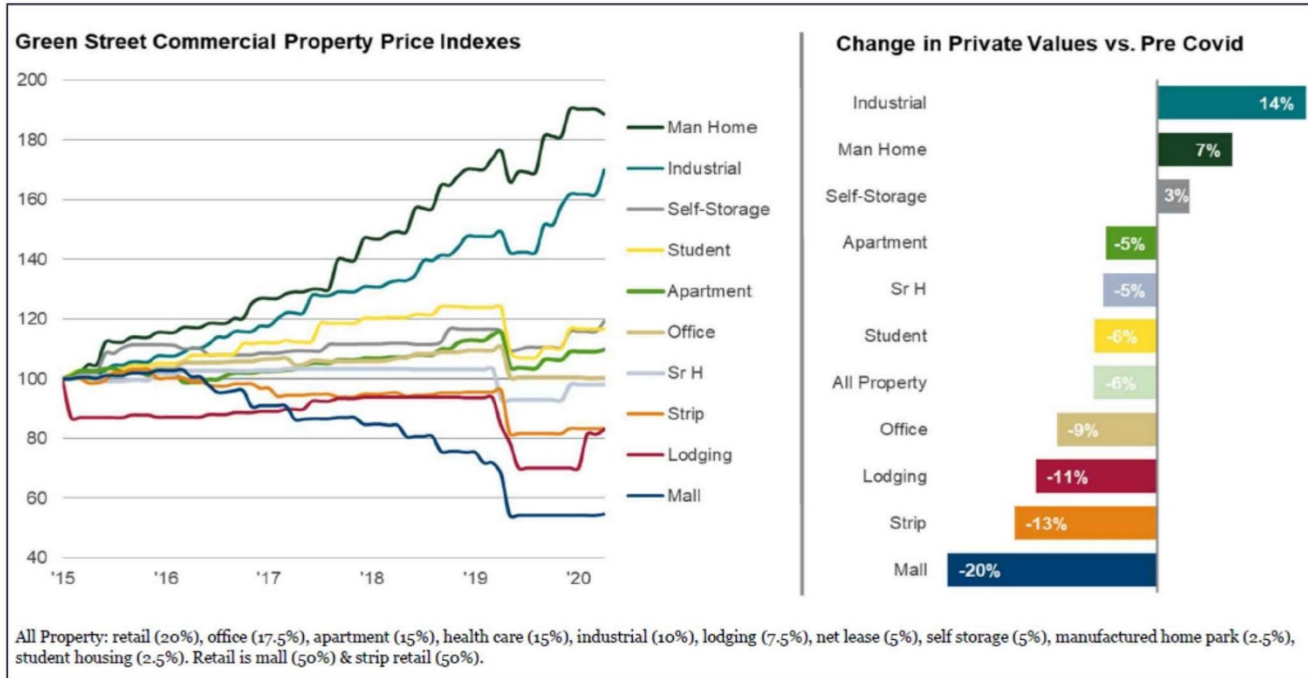
Takeaway: Rising rates could mean an opportunity to invest in financial institutions, who can take advantage of the rising rates

Trend 5: Potential Inflation showing up in Commodity Prices



Takeaway: Rise in inflation is being driven by rise in fuel and food prices

Trend 6: Private Real Estate sectors shows diverging performance



*Source: Green Street Research Commercial Property Outlook March 2021

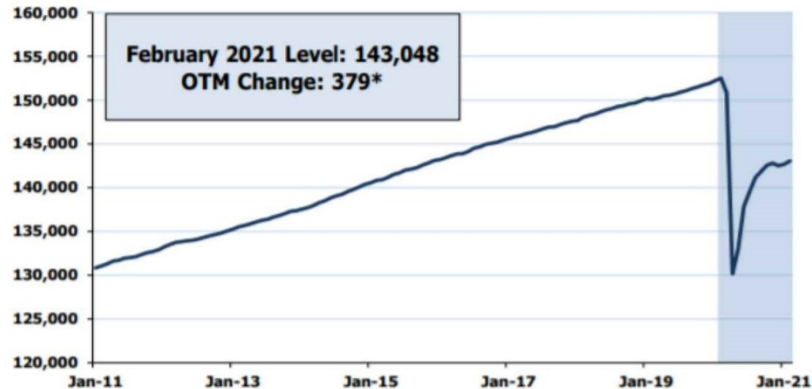
Takeaway: Manufactured Housing and Industrial sectors are showing resilience in current market environment

Trend 8: Rebound in Employment still uneven across industries

Strong Rebound in Job Growth since March 2020

Employment in total nonfarm January 2011–February 2021

Seasonally adjusted, in thousands

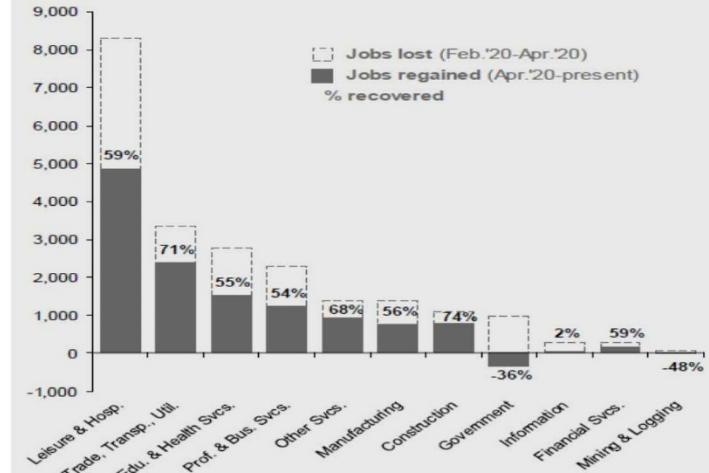


Bureau of Labor Statistics, Current Employment Statistics survey, March 05, 2021.
Shaded area represents recession as denoted by the National Bureau of Economic Research.
Most recent 2 months of data are preliminary.
* denotes significance.

Uneven Job Recovery across industries signals
pockets of distress

Payroll employment lost and regained by industry

Thousands, % recovered



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Takeaway: Robust stimulus measures are effectively targeting industries impacted by COVID

Legislation Tax Update



American Families Plan

Current Law (2021)

- 37% top rate
- 20% top rate on cap gains & dividends
- 3.8% net investment income tax (over \$250k for couples)
- Income taxes apply upon sale; stepped-up basis at death
- No limit on like-kind exchanges

President Biden's Proposal

- 39.6% top rate
- 39.6% cap gains & dividends (over \$1 million)
- \$3.8% would also apply to active income from businesses
- Income taxes on appreciation at death (\$1 million exclusion)
- \$500k limit on like-kind exchanges

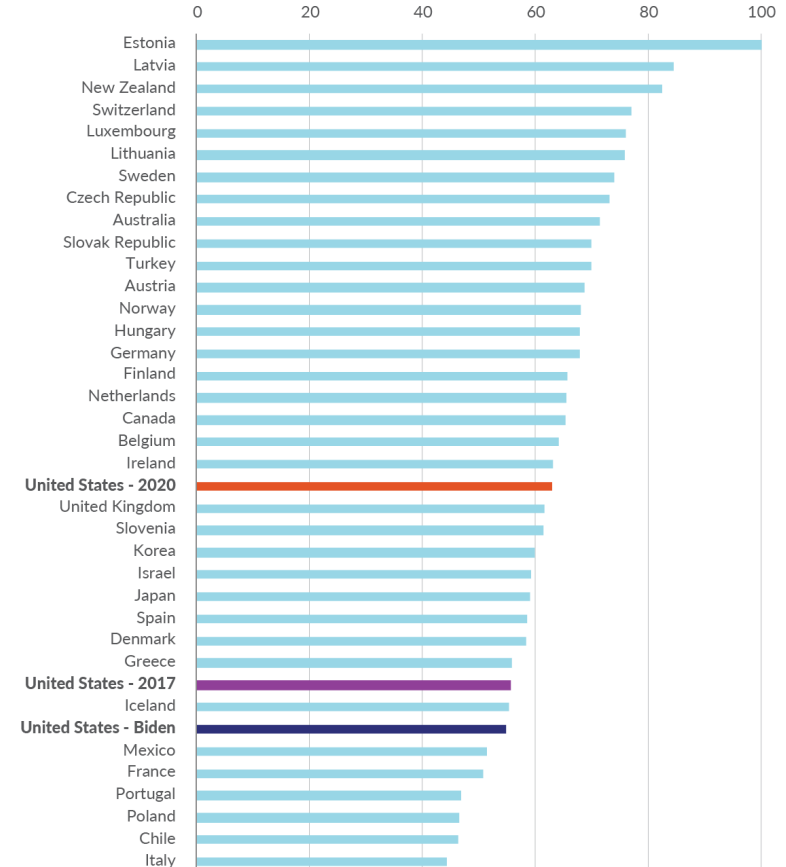
What about corporate taxes?

According to the Tax Foundation, under President Biden's tax plan, the United States would tax corporate income at the highest top rate in the industrialized world, averaging 65.1 percent.

Tax Tip – Consider
“reverse tax
planning”

The Biden Tax Plan Would Rank the U.S. Below Where It Stood Prior to Tax Reform

International Tax Competitiveness Index Score for 2020 with the U.S. ranks for 2017, 2020, and the Biden tax plan.



Current Tax Rates (Married Couples)

Taxable Years Beginning in 2021

If Taxable Income Is:

Not over \$19,900

Over \$19,900 but not over \$81,050

Over \$81,050 but not over \$172,750

Over \$172,750 but not over \$329,850

Over \$329,850 but not over \$418,850

Over \$418,850 but not over \$628,300

Over \$628,300

The Tax Is:

10% of the taxable income

\$1,990 plus 12% of the excess over \$19,900

\$9,328 plus 22% of the excess over \$81,050

\$29,502 plus 24% of the excess over \$172,750

\$67,206 plus 32% of the excess over \$329,850

\$95,686 plus 35% of the excess over \$418,850

\$168,993.50 plus 37% of the excess over \$628,300



39.6% Top Rate Proposal

Fact sheet: There is no mention of income thresholds. (These #s could change!)

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Not over \$19,900

Over \$19,900 but not over \$81,050

Over \$81,050 but not over \$172,750

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Over \$329,850 but not over \$418,850

Over \$418,850 but not over ~~\$62,300~~ \$509,300

Over ~~\$62,300~~ \$509,300

Taxable Years Beginning in 2021

The Tax Is:

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\$1,990 plus 12% of the excess over \$19,900

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\$67,206 plus 32% of the excess over \$329,850

\$95,686 plus 35% of the excess over \$418,850

~~\$168,350~~ plus ~~35%~~ of the excess over ~~\$418,850~~

\$127,344 plus 39.6% of excess over \$509,300

39.6% Top Rate Proposal

Married couple



\$1 million of ordinary income



Extra \$15,000 in taxes

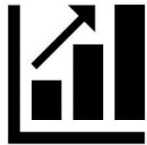


Capital Gains Proposal

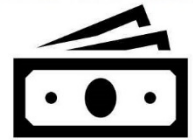
Married couple



\$1 million of capital gains



Extra \$200,000 in taxes



Tax tip – consider installment sale to spread income over multiple years to take advantage of lower tax brackets post sale




Medicare Tax Proposal

- Fact sheet: "Finally, high-income workers and investors generally pay a 3.8 percent Medicare tax on their earnings, but the application is inconsistent across taxpayers due to holes in the law. The President's tax reform would apply the taxes consistently to those making over \$400,000, ensuring that all high-income Americans pay the same Medicare taxes."
- WSJ: The Bidens routed book and speech income through S corps saving \$500k in self-employment tax.



Example



Current law:				Social Security Tax 12.40% (up to \$142,800)	Medicare Tax 2.90% (no limit)	Additional Medicare 0.90% (over \$250k)	Net Investment Income Tax 3.80% (over \$250k)	Total Payroll Taxes
	<u>Wages</u>	<u>Business Income</u>	<u>Total Income</u>					
Bo	\$14,000,000		\$14,000,000	\$17,707	\$406,000	\$123,750		\$547,457
Joe & Joe's S Corp	\$1,000,000	\$13,000,000	\$14,000,000	\$17,707	\$29,000	\$6,750		\$53,457

- *Bo has a “tell-all” contract with Presidential Publishing Company for \$14 million.*
- *Joe’s S Corp has a contract with Presidential Publishing Company for \$14 million. The S Corp pays Joe a wage (reasonable compensation).*
- *Bo pays \$500k more in payroll taxes than Joe.*

Example

<u>Current law:</u>				Social Security	Medicare	Additional	Net Investment	
		Business	Total	Tax	Tax	Medicare	Income Tax	Total
	<u>Wages</u>	<u>Income</u>	<u>Income</u>	(up to \$142,800)	(no limit)	(over \$250k)	(over \$250k)	Payroll Taxes
Bo	\$14,000,000		\$14,000,000	\$17,707	\$406,000	\$123,750		\$547,457
Joe & Joe's S Corp	\$1,000,000	\$13,000,000	\$14,000,000	\$17,707	\$29,000	\$6,750		\$53,457



<u>Proposal???</u>				Social Security	Medicare	Additional	Tax on Business	
		Business	Total	Tax	Tax	Medicare	Income???	Total
	<u>Wages</u>	<u>Income</u>	<u>Income</u>	(up to \$142,800)	(no limit)	(over \$250k)	(over \$400k)	Payroll Taxes
Bo	\$14,000,000		\$14,000,000	\$17,707	\$406,000	\$123,750		\$547,457
Joe	\$1,000,000	\$13,000,000	\$14,000,000	\$17,707	\$29,000	\$6,750	\$494,000	\$547,457



Ending the "Stepped-up" Basis Proposal

- President's proposal would tax appreciated property at death
- \$1 million exemption (\$2 million per couple; \$500k home)
- Exceptions
 - Donations to charity
 - Family-owned businesses & farms (if heirs continue to run the business}
- Not yet addressed
 - Lifetime transfers
 - Changes in estate and gift tax rates: changes in exemption



Example

- *Estate tax is based on FMV at death*
- *Income tax is based on appreciated gain (even if the asset is NOT sold)*
- *Income tax could exceed estate tax*

<u>Assets</u>	<u>FMV</u>	<u>Basis</u>	<u>Unrealized Gain</u>
50,000 shs Ralston Purina	\$6,050,000	\$50,000	\$6,000,000
200,000 shs General Mills	\$12,600,000	\$1,600,000	\$11,000,000
Total	\$18,650,000	\$1,650,000	\$17,000,000
<u>Estate & gift taxes</u>			
Exemption at death (2021)	-\$11,700,000		
Taxable estate	\$6,950,000		
Estate taxes	\$2,725,800		
<u>Estate & gift taxes</u>			
Exemption at death			-\$1,000,000
Taxable gain			\$16,000,000
Income taxes			\$6,944,000



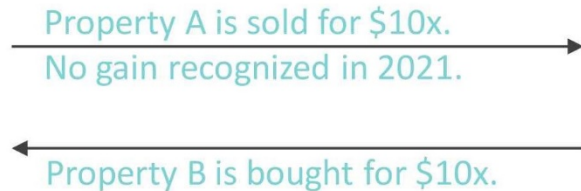
Like-kind Exchanges

- Current law
 - Individuals can defer gain on the sale of real estate.
 - There is no dollar limit.
 - Property must be held for productive use in a business or as investment property.
 - Must identify and receive "like-kind" property within deadlines.
- For exchanges after 1/1/2018, like kind exchanges are limited to real estate.



Like-kind Exchanges

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Like-kind Exchange Proposal

- Fact sheet: "The President would also end the special real estate tax break - that allows real estate investors to defer taxation when they exchange property - for gains greater than \$500,000... "
- Open issues
 - Is it per individual or per taxpayer?
 - Is it per year? Or every several years?
 - Is it per disposition?
 - For passthroughs, is it at the entity level or member/partner level?
 - When would it be effective?



What to do now...

Prospective effective dates are expected

Treasury Secretary Yellen has stated that tax increase proposals generally are expected to be effective on a prospective basis beginning in 2022 (i.e., not retroactive to a date in 2021). Both Ways and Means Chairman Neal and Finance Chairman Wyden earlier this year reaffirmed their opposition to retroactive tax increases.



- **If selling appreciated assets in next 4 years, sell them now. Creative tax planning for installment sales will flourish!**
- **Expect wild market fluctuations, and consider gifting in 2021 to take advantage of \$11,580,000 per person exemption**



Thank you!

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Saturday's at 10 am, Newstalk 780 KOH

