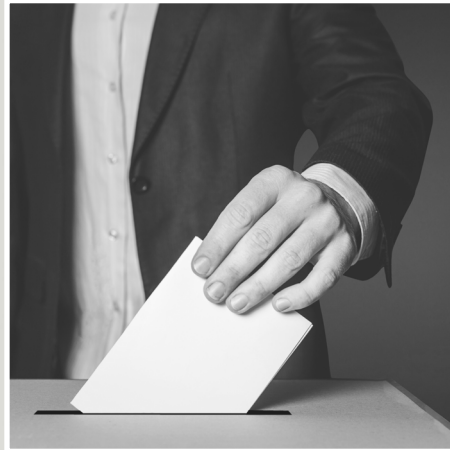




HIGHTOWER



## Financial Planning During an Election Year

Effective tax and estate planning in any election year can be difficult; there is always a measure of uncertainty, and this year is no exception! Add to that the complexity of the pandemic and the national discussion over racial injustices; the short- and long-term economic impacts of these events can play out in many ways. While the outcome of the November election is still unknown, whichever party wins likely will have to determine how to fund growing deficits.

A solid financial plan is always the first step; a plan that includes consideration of risk tolerance, short term goals, and long term goals. Beyond the creation of, and adherence to, that plan, there are a few things to consider in these uncertain times that can potentially save you money, taxes and headaches down the road.

## Election Facts and Figures

While no one can truly predict the likely outcome of elections, there is some analysis worth considering:

### The US Senate

Currently, the Republicans control the Senate by a margin of 53 to 47. This means the Democrats will need a net pick up of four seats to regain control of that chamber. Additionally, the Democrats have a statistical advantage in that they only have to defend 12 existing seats, while Republicans have 23 seats up for election.

According to the [June 2020 Cook Political Report](#), there is one Democratic seat leaning Republican with the remaining seats solidly in, or leaning toward, the Democratic column. On the other hand, the Republicans have five seats seen as tossups with the remaining seats solidly in or leaning toward a Republican win. The key tossup races to keep an eye on include those in North Carolina, Arizona, Maine, Montana and Colorado.

### The House of Representatives

The House of Representatives currently consists of 232 Democrat seats, 198 Republican seats, one Libertarian and four vacancies (three of which are retiring Republicans). The Republicans need a net gain of 20 seats to regain control of this chamber. There are 25 seats seen as toss ups with 15 currently or previously held by Democrats and 10 by Republicans, according to the [latest Cook Report](#). Iowa, Texas and Georgia each have multiple vacancies seen as toss ups.

### The Presidency

Lastly, the presidential election is just beginning to get into full swing with a long way to go until the November elections. Rapid-fire events have upended the 2020 presidential race in this campaign, flip-flopping from polls tilted toward Trump as recently as March, to the widening gap favoring former Vice President Biden over the past month.

## Comparison of Current Proposals:

In the chart below, we compare the current tax laws and the proposals laid out by presidential candidate Joe Biden. At the time of this publication, there has not been a formal Republican proposal to address the federal deficit in light of the pandemic. There have been, however, [a handful of vague ideas](#) and bullet-point descriptions about various tax cuts the president would like to pursue if he's reelected, including an unspecified "Made in America" tax credit and an expansion of Opportunity Zones.

Area of Impact	Current Law	Biden Tax Proposal
Long-Term Capital Gains and Dividends Tax Rate	20% (plus 3.8% net investment tax)	39.6% on taxable income over \$1 million (plus 3.8% net investment tax)
Individual Ordinary Income Tax Rates	37% top bracket	39.6% of taxable income over \$1 million
Itemized Deductions	Eliminates Pease deductions through 2025	Caps value of itemized deductions at 28%
Corporate Tax Rate	21%	28%
Small Business Tax Rate	37% top bracket	39.6% phases out 20% qualified business deduction for taxable income over \$400,000
Payroll Taxes	12.4% on taxable income up to \$137,700, indexed for inflation	Would expand to include all taxable income over \$400,000
Tax Basis Step Up	Step up basis at death	Eliminates step up in basis at death; replaces it with carryover basis with possible "deemed" sale at death
Estate and Gift Tax Exemption	\$11.58 million/individual; \$23.16 million/couple	\$1-\$5 million/individual; \$2-\$10 million/couple
Estate Tax Rates	40%	40%-80%
1031 ("like-kind") Exchanges	Deferral of capital gains upon sale of investment real estate if proceeds are reinvested in other like-kind property	Would eliminate like-kind exchanges for taxpayers with annual taxable income over \$400,000

## Considerations Before Year-End

As we continue to monitor the potential tax impact of the upcoming elections, you may begin considering these planning opportunities prior to year-end:

- **Making taxes work for you:** With income tax rates potentially increasing as early as 2021, you might consider accelerating the recognition of income into this year. One strategy would be to consider converting a traditional IRA into a Roth IRA. This would enable individuals to take advantage of the current tax rates while receiving tax-free distributions in the future when tax rates could be higher.
- **Trifecta for wealth transfer:** Individuals with large taxable estate and sufficient cash flow to meet their lifestyle needs may wish to consider making large gifts prior to year-end in order to take advantage of the current estate and gift tax exemptions level of \$11.58 million per individual (\$23.16 million per couple). With many asset values depressed and interest rates at historically low levels, this could be an opportune time to consider wealth transfer planning or intra-family loan in order to move assets to the next generation.

Note that many of the tax strategies currently available to high-net-worth individuals could be eliminated, including ending valuation discounts for intra-family transfers and limiting the terms of Grantor Retained Annuity Trusts.

Overall, there's no doubt these times are challenging, and there is a wide range of possible outcomes that will stem from the elections in November. No matter what the outcome though, difficult decisions will have to be made on how to manage and fund economic decisions. We're always happy to have a conversation to make sure your personal plan is in order.

*All securities are offered through Hightower Securities, LLC, member FINRA and SIPC, and advisory services are offered through Hightower Advisors, LLC, a SEC registered investment advisor. In preparing these materials, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public and internal sources. Hightower shall not in any way be liable for claims and make no expressed or implied representations or warranties as to their accuracy or completeness or for statements or errors contained in or omissions from them. This is not an offer to buy or sell securities. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. Investors may lose all of their investments. Past performance is not indicative of current or future performance and is not a guarantee. This document was created for informational purposes only; the opinions expressed are solely those of the author, and do not represent those of Hightower Advisors, LLC or any of its affiliates.*