

Wealth Management Potential Changes in US Leadership

July 2020

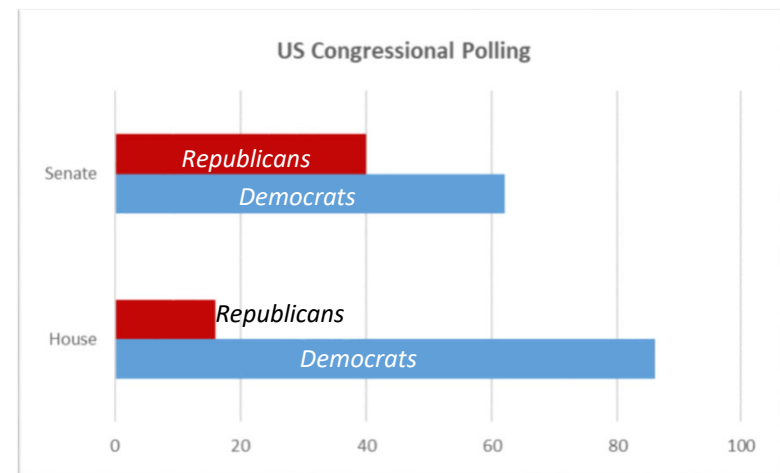
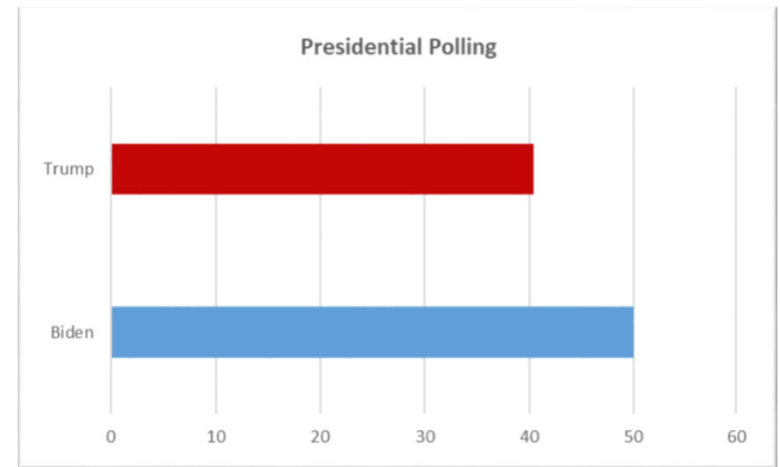


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The Campaign Season Is Upon US

- Early polling suggests that President Trump may face a significant challenge to get reelected.
- Early polling also suggests that Democrats may take over the majority in the US Senate.
- If Democrats control the White House and Congress, legislation will be much easier to get through Congress than if the Republicans had control of even just one house of Congress.
- Democrat policies that could change expectations for corporate earnings and economic growth:
 - Regulatory Policy
 - Education
 - Environmental
 - Tax Policy



Potential Changes in Tax Policy

- ***The Biden Tax Policy:***
 - ***Potential Changes in Income taxes***
 - “No tax payer making under \$400K will see higher income taxes”
 - Tax payers earning more than \$400K in a year may see income tax rate increase to 39.6%
 - Top 1% of income earners may see after tax income decline by 8%
 - Top 5% of income earners may see after tax income decline by 1%
 - ***Potential Changes in capital gain taxes:***
 - Tax long-term capital gains and qualified dividends at 39.6% on income above \$1 million and eliminate the step-up basis
 - ***Potential changes in corporate tax rates:***
 - Corporate tax rate may increase to 28%
 - Creation of a 15% minimum corporate tax rate for companies with net incomes over \$100 million
 - ***Potential changes in social security taxes:***
 - Imposes a 12.4% Social Security tax on income earned above \$400,000
 - Would be evenly split between employers and employees
 - Would create a “donut hole” in the current payroll tax where wages between \$137,000, the current wage cap, and \$400,000 are not taxed

- **Takeaways for investors:**
 - November is rather far away from a political perspective.
 - Although current polling indicates that democrats will take over the White House and both houses of US Congress, it is not a certainty.
 - If Democrats do win the White House and have the majority in both houses of US Congress, it is likely that current regulatory policies will change in a meaningful way.
 - Energy, Technology, Financials, and Health Care industries may be impacted the most through regulatory reform.
 - Tax reform is also likely under a Biden Administration, but reform is less likely if the economy has not improved from its current state.
 - High income earners, corporations, and some investors will likely see higher tax rates if the economy is on more solid ground.
 - If polling continues to indicate that democrats will have legislative control in US Congress, markets may be negatively affected over the short term.
 - Regulatory and tax policy changes are viewed as a threat to corporate earnings.
 - Examples: Higher corporate taxes = lower corporate earnings = lower equity prices.
 - Although these potential changes may create volatility over the short term, markets will be “re-priced” quickly to incorporate any changes in economic and earnings growth.