VIEW CAPITAL ADVISORS, LLC

Panorama

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Sustainable Investing—What is it?

In this Issue:

The asset-management industry has faced many challenges this year, but one category continues to attract assets. This category combines traditional security analysis with environmental, social and governance (ESG) insights.

- Environmental – Climate change, pollution & waste, clean tech
- Social – Product liability, data privacy, health & safety
- Governance – Ethics, accounting practices, ownership & control

In essence, it seeks to identify companies that strive to "do the right thing" by incorporating these considerations into the security analysis process. ESG-driven assets have now reached $40 trillion globally, and continue to grow despite the pandemic.

The general investment premise is that companies should try to pursue profit as their primary goal for shareholders and that will accomplish social good as a by-product. Though ESG advocates say that doing the right thing and making money go hand-in-hand, another line of thinking says that making money through investments is not always perfectly correlated with doing the right thing. In fact, the Department of Labor emphasizes this position in addressing fiduciary responsibilities of managing retirement plan assets.

In some cases, ESG-related investments have outperformed their counterparts. That could simply be a coincidence. For example, many ESG funds invest heavily in tech companies, and tech most likely is rallying for reasons that have nothing to do with ESG. Many ESG funds exclude fossil fuel investments, but fossil fuel investments could also be doing poorly for reasons that have nothing to do with ESG.

Over the past few years, ESG success has been driven largely by liquidity and flows. Global ESG funds have experienced significant inflows while the broader fund universe sustained significant outflows. The magnitude of these flows can drive asset prices higher and create the appearance that ESG is working as a strategy. It could be that ESG investing is having its intended effect — it is raising the cost of capital for companies that don't fit nicely in the ESG space and lowering it for those that do.

When it comes to ESG, there's a lot of hype and promotion, which can result in mispricing. One of the big criticisms of ESG is that the criteria for determining which companies are trying to do the right thing are overly broad and subjective. Each ESG rating agency has its own standards and weights for environmental, social and governance factors.

In terms of long-term returns, the majority of investment managers today do in fact look at ESG factors as a part of their process to assess companies, whether labelling themselves as "ESG Managers" or not. It remains to be seen whether ESG factors could also serve as restrictions upon managers that could at some point result in underperformance. ESG investing is popular today and it is tempting to believe that we've entered a new paradigm. So long as that popularity remains, money will flow in and this category will continue to flourish.

PPP Loan Forgiveness

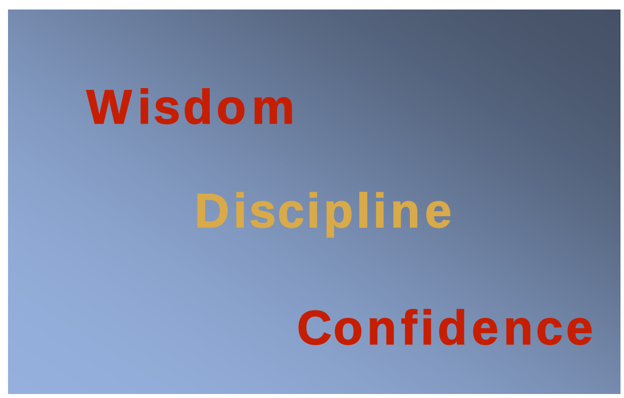
The U.S. Small Business Administration (SBA) released new guidance October 13, 2020 confirming that Paycheck Protection Program (PPP) loan forgiveness applications are not due on Oct. 31.

Confusion regarding the filing deadline came to the SBA's attention because the program's loan forgiveness application forms (3508, 3508EZ, and 3508S) display an expiration date of "10/31/2020" in the upper-right corner. To clarify the issue, the SBA released a new entry in its loan forgiveness frequently asked questions document answering the query, "Is October 31, 2020, the deadline for borrowers to apply for forgiveness?"

The SBA answer can be found in Q&A No. 4 in the General Loan Forgiveness FAQs section, where the SBA explains that borrowers may submit a loan forgiveness application any time before the maturity date of the loan, which is either two or five years from the loan's origination, depending on the borrower's agreement. Borrowers should keep in mind though that loan payments are deferred only until 10 months after the last day of each borrower's loan forgiveness covered period.

For example, a borrower with a covered period that ends Oct. 30, 2020, has until Aug. 30, 2021, to apply for forgiveness before loan repayment begins.

The SBA placed the expiration date in the upper-right corner of the PPP loan forgiveness application forms to comply with the Paperwork Reduction Act. The date represents the temporary expiration date for approved use of the forms, the SBA said, adding that once a new expiration date is approved, it will be posted on the forms.



Biden and Your Taxes

As of the date of this writing (November 5, 2020), the winner of the office of President of the United States has not been conclusively determined, although Joe Biden seems to be well positioned to win. And while the Republicans at this moment appear to have held onto control of the Senate, that too has not been conclusively determined. If Senate runoff elections result in Georgia, we could end up with an evenly split Senate. In that case, the vice-president can cast the deciding Senate vote. But whose vice president?

Candidate Joe Biden has revealed his plans for making changes to the Tax Code should he be elected as President. Biden promises to reverse the 2017 Trump tax cuts and raise taxes on individuals making more than $400,000. But tax legislation of the magnitude that Biden proposes cannot be accomplished without a Democratic sweep – retain the House, flip the Senate, and win the Presidency. The final vote tally could still result in that sweep.

Given that higher taxes under a Biden administration will have a negative impact on most Americans, we want to summarize the most significant proposals for our readers.

Top Ordinary Rate Back to 39.6%

Vice President Biden has proposed a modest but immediate increase of the top ordinary income tax bracket from the current top rate of 37%, back to the top pre-Tax Cuts and Jobs Act rate of 39.6%. While this change is currently scheduled to occur as a part of the so-called "sunset" of the 2017 Tax Cuts and Jobs Act in 2026, Biden's proposal would advance the 2026 date forward to 2021.

While the Biden proposal would only increase the top ordinary income tax rate to its pre-TCJA level of 39.6%, it would also lower the income threshold at which that top rate would apply. In 2017 the 39.6% ordinary income tax bracket did not apply to single filers until they had taxable income of more than $418,000 nor to joint filers until they had taxable income that exceeded $470,000.

Biden would have the 39.6% rate begin to apply to taxable income at just $400,000. In 2020, taxpayers with $400,000 would find themselves in the 35% bracket (single filers) and 32% bracket for joint filers with the same income. So this could be a significant rate bracket increase for many.

Estate Exclusion Reduced in Half

A feature of Biden's proposed tax plan would be a 50% reduction of the exclusion amount for estate and gift taxes, from the current $11.58 million to the pre-TCJA amount of $5.79 million. In addition, Biden has signaled his intention to eliminate the step up in basis at death.

Itemized Deductions Capped at 28%

The Biden tax plan calls for a cap on the value of itemized deductions at 28%. At a top tax bracket of 39.6%, this cap would result in a tax as high as 11.6% on taxable dollars spent on charitable donations that previously might have been fully deductible. While the proposed cap on itemized deductions would most obviously impact charitable donations, the mortgage interest deduction would also be more limited, as would the payment of state and local taxes, at least up to the $10,000 limit that is still available. On the other hand, for nearly 90% of households that no longer itemize deductions and instead claim the standard deduction, the new itemized deduction 28% rate cap would have no effect.

Eliminate QBI Deduction for High Earners

Under current law, the Qualified Business Income (QBI) deduction allows various pass-through business owners to deduct 20% of their business income. This effectively reduces the tax bracket for pass-through business income by 20% of the otherwise-normal tax rate, such that the top 37% bracket is only 29.6% in 2020. Business owners of Specified Service Trade or Businesses (which includes doctors, lawyers, consultants, and financial advisors) see their QBI deductions completely phased out once taxable income (for 2020) exceeds $426,600 for joint filers.

Under the new Biden proposal, the QBI deduction would no longer be available to anyone earning more than $400,000/year, regardless of whether their pass-through business was a Specified Service Trade or Business. REIT dividends and net profits from publicly traded partnerships are also currently eligible for the 20% QBI deduction, regardless of a taxpayer's income. Under the Biden tax plan, taxpayers with income in excess of $400,000 would no longer be able to claim a QBI deduction for these amounts.

Credit to Replace Deduction for 401(k) Contributions

A significant change is Biden's proposal to eliminate the tax deduction for contributions to IRAs, 401(k)s, 403(b)s, and other pre-tax accounts, and to replace it with a new credit that would be equal to a specified percentage of the amount contributed to the pre-tax account.

The intention of the proposal is to adjust the current system where the dollar benefit of retirement contribution is higher for high-income individuals and lower for lower income individuals, and instead to make the dollar benefit of tax savings for making contributions to a pre-tax retirement account equal for all taxpayers. Thus, instead of a high-income earner saving $3,700 for a $10,000 contribution at the top 37% bracket and a low-income earner getting a tax benefit of only $1,000 or $1,200 at the bottom 10% or 12% brackets, contributing $10,000 to a 401(k) would result in a flat credit of $2,600 regardless of their tax bracket.

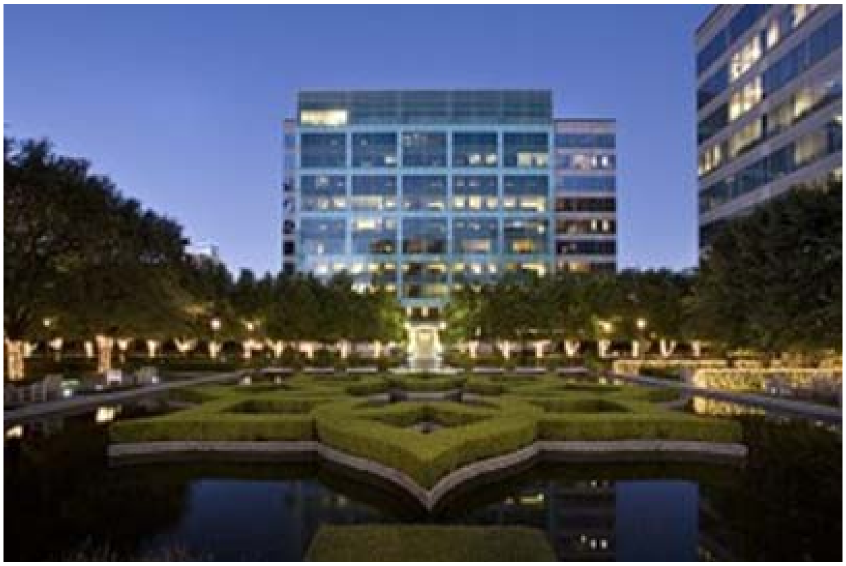
Consider an individual in the 39.6% bracket proposed by Vice President Biden who earns and then makes a $20,000 contribution to a traditional 401(k) and receives a $20,000 x 26% = $5,200 income tax credit. Since the $20,000 of earnings would no longer receive a deduction and would still be included the individual's income, he would have a gross income tax liability attributable to the $20,000 401(k) contribution of $7,920 ($20,000 x 39.6%). Thus, this individual would have a $7,920 income tax – $5,200 retirement tax credit = $2,720 net tax liability attributable to his 401(k) contribution. At retirement, those dollars will have to be distributed from the pre-tax account and they'll be subject to income tax again when they're distributed. This result could affect an individual's desire to contribute to his retirement plan in the future.

Long Term Capital Gains Taxed at Ordinary Rate at Income above $1,000,000

If a taxpayer's income exceeds $1 million, the Biden tax proposal calls for taxing both long-term capital gains and qualified dividends at his proposed ordinary income tax rate of 39.6%. To that, add on the 3.8% surtax on net investment income. As proposed, the ordinary income tax rate would only apply to the extent that when added to a taxpayer's other income, their long-term capital gains and/or qualified dividends exceeded $1 million. For example, if an individual had $850,000 of ordinary income and $250,000 of long-term capital gains, $100,000 of long term capital gains that represent income in excess of $1 million would be subject to ordinary income tax rates. This would nearly double the top rate paid on long-term capital gains income today from 23.8% to 43.4% for those with over $1 million of income.

Perspective

Strength



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View Capital Advisors, LLC was founded in 2004 by its principals with the mission of providing sophisticated investment asset management and financial and estate planning to our U.S. and Non-U.S. clients.

We seek to bring wealth planning best practices and a wide range of non-proprietary solutions to our clients. We also conduct our own research and diligence on world markets and investment alternatives.

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