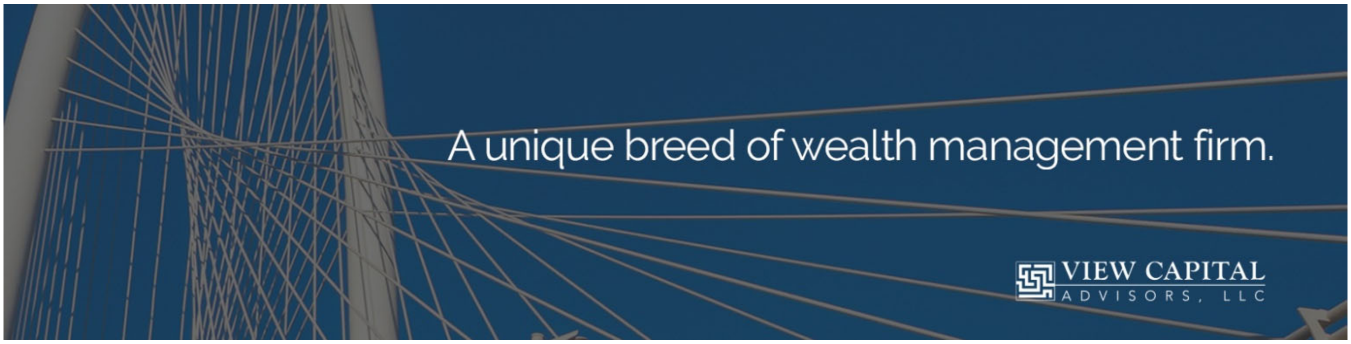
Panorama

April 2023 ISSUE 47



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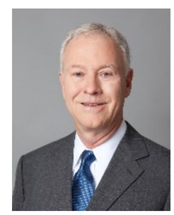

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BIDEN BUDGET TAX PROPOSALS

The Biden Administration released its Fiscal Year 2024 budget proposal on March 9, 2023, which includes a number of tax changes that would affect high-net-worth individuals. These proposed tax increases are a natural follow-on to the Administration's proposed massive $6.9 trillion spending budget for the fiscal 2024 year. We highlight selected provisions below affecting individual taxpayers. Except as noted, the proposals would be effective for tax years beginning after December 31, 2023.

Many of these proposals are repeats from last year's budget proposals released in March 2022, or that were included as part of the 2021 Build Back Better Act that ultimately failed to pass in the Senate. What has changed however, is that Republicans now control the House of Representatives, so bipartisan support will be necessary for any of the President's proposals to become enacted legislation. Given the nature of these proposals, we believe any consensus is extremely unlikely. Nevertheless, we want to keep this list of progressive Democrat proposed tax increase "favorites" in full view, as the current political stalemate could change with upcoming elections and these proposals could quickly become very real.

- **Increase the top marginal income tax rate for high-income earners**

  Effective for tax years beginning after December 31, 2022, the proposal would increase the top marginal tax rate from 37% to 39.6%. The top rate would apply to taxable income exceeding $450,000 for joint filers and $400,000 for unmarried individuals. Even if the proposal to increase the top rate on ordinary income fails to pass, that rate is slated to return to 39.6% in 2026 when changes made by the Tax Cuts and Jobs Act (TCJA) expire. In addition to raising the top individual rate, the President's budget proposal would lower the threshold at which the top rate takes effect. For example, the 2023 top rate of 37% applies once taxable income exceeds $578,125 for a single filer and $693,750 for those married filing jointly. The budget proposal would impose a top rate of 39.6% once taxable income exceeds $400,000 for a single filer and $450,000 for married individuals filing jointly.

- **Capital gains reforms**

  The Administration proposes to tax the capital income of high-income earners at ordinary rates, increasing the top rate from 20% to 39.6%. Long-term capital gains and qualified dividends of taxpayers whose taxable income exceeded $1 million ($500,000 for married individuals filing separately) would be taxed at ordinary rates. The income threshold would be indexed for inflation after 2024. The proposal would be effective for gains required to be recognized and for dividends received on or after the date of enactment.

- **Treat transfers of appreciated property by gift or at death as realization events**

  This proposal generally would require the donor or deceased owner of an appreciated asset to realize a capital gain at the time of its transfer, calculated as the excess of the asset's fair market value (FMV) on the date of the gift or date of death over the decedent's basis in the asset. This would replace the current basis step-up at death. Other aspects of this proposal include:

  - The gain would be reported as taxable income to the donor or to the decedent's estate on the federal gift or estate tax return or on a separate capital gains return.
  - Capital losses and loss carryforwards from transfers at death could offset capital gains and up to $3,000 of ordinary income on the decedent's final income tax return.
  - Transfers of property into, and distributions in-kind from a trust, other than a grantor trust deemed to be wholly owned and revocable by the donor, would be recognition events.
  - A lifetime gift exclusion of $5 million per donor would be provided for recognition of other unrealized capital gains on property transferred by gift.
  - Note that the provision would cause an income tax realization event at the time of the transfer equal to the FMV of the asset on the date of transfer less the basis the taxpayer had in the

asset on the date of transfer. Therefore, the taxpayer will be deemed to have sold the transferred asset resulting in phantom income with no corresponding proceeds from the deemed sale to pay the income tax resulting from the deemed sale.

- **Apply the net investment income tax (NIIT) to high-income taxpayers' passthrough business income**

  The Administration's proposal effectively would subject all business income to either the self-employment tax or NIIT. This proposal would ensure that non-passive shareholders of an S corporation and limited partners in a limited partnership will be subject to the NIIT on their passthrough income.

- **Increase the NIIT rate and the additional Medicare tax rate for high-income taxpayers**

  The proposal would increase the additional Medicare tax rate by 1.2 percentage points for taxpayers with more than $400,000 in earnings. This would effectively bring the marginal Medicare tax rate up to 5% for those earning more than $400,000. The proposal would also increase the NIIT rate by 1.2 percentage points for taxpayers with more than $400,000 in income. For taxpayers with positive net investment income (NII), the NIIT would increase by 1.2% on the lesser of (1) NII or (2) any excess of modified AGI exceeding $400,000. Both thresholds would be indexed for inflation.

  - This is the first time the Administration has proposed to increase the NIIT rate to 5% for high earners. When coupled with a top marginal rate of 39.6%, the top rate on ordinary income subject to the NIIT would reach 44.6% if both proposals were enacted.

IS MY MONEY SAFE?

This is the question almost everyone has been asking after several recent bank failures, including Silicon Valley Bank and Signature Bank, who were the among the most notable ones. The good news and answer to this question is that there are insurance mechanisms in place that do provide protection for your financial accounts if your financial institutions should fail.

There are two separate insurance funds that apply depending on whether your financial account is held with a bank or a brokerage firm. Bank account balances are insured by the Federal Deposit Insurance Corporation, or FDIC, up to the coverage limits. Assets in your brokerage account are protected by a different entity — the nonprofit Securities Investor Protection Corporation, or SIPC.

The FDIC is an independent agency of the United States government. The FDIC protects depositors of insured banks located in the United States against the loss of their deposits if an insured bank fails. Any person or entity can have FDIC insurance coverage in an insured bank. A person does not have to be a U.S. citizen or resident to have his or her deposits insured by the FDIC. FDIC insurance is backed by the full faith and credit of the United States government. Since the FDIC began operations in 1934, no depositor has ever lost a penny of FDIC-insured deposits.

The standard deposit insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. The FDIC insures deposits that a person holds in one insured bank separately from any deposits that the person owns in another. For example, if a person has a certificate of deposit at Bank A and has a certificate of deposit at a separately chartered insured bank at Bank B, the amounts would each be insured separately up to $250,000. Funds deposited in separate branches of the same insured bank are not separately insured.

SIPC protects against the loss of cash and securities – such as stocks, bonds and mutual funds – held by a customer at a financially-troubled SIPC-member brokerage firm. The limit of SIPC protection is $500,000, which includes a $250,000 limit for cash. Many brokerage firms also supplement their SIPC coverage with "excess of SIPC coverage" insurance through commercial insurers. Most customers of failed brokerage firms are protected when assets are missing from customer accounts. But SIPC does not protect against the decline in value of your securities. Nor does SIPC protect individuals who are sold worthless stocks and other securities. SIPC also does not protect against losses due to a broker's bad investment advice, or for recommending inappropriate investments.

SIPC protects cash in a brokerage firm account resulting from the sale of or for the purchase of securities. But cash held in connection with a commodities trade is not protected by SIPC. Money market mutual funds, often thought of as cash, are deemed to be securities and are protected as such by SIPC. SIPC protects cash held by the broker for customers in connection with the customers' purchase or sale of securities whether the cash is in U.S. dollars or denominated in non-U.S. dollar currency.

CENTRAL BANK DIGITAL CURRENCY

What is "central bank digital currency" (CBDC) you ask? Forms of money have been continually evolving since the days when people accepted barter for payment. Digital currencies are yet another money metamorphosis. A "fiat" currency is a government-issued currency not backed by a physical commodity, such as gold or silver, but rather by the government that issued it. That is exactly what we have with the U.S. dollar. But digital currency is becoming a more common means of making payment transactions in other countries. People use it to facilitate the exchange of goods and services in an economy. Our central bank (the Federal Reserve Bank) issues fiat currency (dollars) for the nation's use. A CBDC, if implemented in the U.S. would serve as a digital complement to existing central bank reserve account balances and as contemplated would not replace our physical currency.

On March 9, the Biden administration released an executive order (EO) instructing a long list of federal agencies to study digital assets and to propose numerous reports about their use and proposals to regulate them. But there is an even more important part of the EO: President Biden has instructed the federal government and Federal Reserve to lay the groundwork for a potential new U.S. currency, a digital dollar.

The White House executive order directs several federal agencies, including the Treasury Department, to study the development of a new CBDC and to produce a report within 180 days of the EO discussing the potential risks and benefits of a digital dollar. The order further directs the Treasury Department, Office of the Attorney General and Federal Reserve to work together to produce a "legislative proposal" to create a digital currency within 210 days, or by early October 2023. So, while we may not have CBDC by the end of this year, we anticipate that the framework will be in place to begin the legislative process.

A digital dollar would not merely be a digital version of the existing U.S. dollar, but rather an entirely new currency that would exist alongside today's currency. Like cash, the CBDC would be used to pay for goods and services and would likely be managed by the Federal Reserve. A central bank digital currency would not exist in physical form, meaning you wouldn't be able to go to a bank or ATM and withdraw it. It is also important to understand that the digital dollar would not be similar to cryptocurrencies like bitcoin. Cryptocurrencies operate on blockchain technology, which is decentralized by design. No group or individual can truly control cryptocurrencies once they are launched.

Digital dollars, on the other hand, would be traceable and programmable, and it is this concept that raises concerns among skeptics. The Federal Reserve (or some other designated entity) would have the ability to create more digital dollars whenever it sees fit, and depending on how the legislation is written setting up the currency, the dollars could be formulated to have various rules and restrictions built into their design.

Generally, it is best not to "mess with people's money". We do believe that most can agree that technology and innovation can improve our lives. However, the key focus should be on whether and how a CBDC could improve on an already safe and efficient U.S. domestic payments system, and at what risks or costs.

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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.

For further information, please contact your investment representative or one of our wealth planning specialists:

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