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Wealth Planning Update

Wealth Planning in the 2020 Election Year

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Key takeaways:

- Tax and estate planning during election years can be difficult. There likely will be differences between how Republicans and Democrats manage the economic challenges that will face the government following the election and how they fund their policies.
- While the outcome of the November election remains uncertain, there are actions you can take to plan during uncertain times.

What this may mean for you:

- These are challenging times and the possible outcomes from the elections continue to evolve. Consult with your Wells Fargo wealth planning team, in coordination with your legal and tax counsel, for assistance in planning ahead for all eventualities and making the most of planning opportunities available.

Effective tax and estate planning in any election year can be difficult. This year is no exception with the added complexity of the worldwide pandemic, a national discussion over racial injustices, and the short- and long-term economic impacts of these events. While the outcome of the November election remains uncertain, whichever party wins likely will have to determine how to fund growing deficits. There are actions you can take now to plan efficiently in these uncertain times, potentially saving you money, taxes and avoiding potential headaches down the road.

Elections facts and figures

While no one can safely predict the likely outcome of the elections, there is some analysis that is worthy of consideration:

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 4 seats to regain control of that chamber. Moreover, the Democrats have a statistical advantage in that they only have to defend 12 existing seats while the Republicans have 23.

According to the June 2020 Cook Political Report[1], there is 1 Democratic seat leaning Republican with the remaining seats solidly in or leaning toward the Democratic column. The Republicans, on the other hand, have 5 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, 1 Libertarian, and 4 vacancies (3 of which are retiring Republicans). The Republicans need a net gain of 20 seats to regain control of this chamber. According to the latest Cook Report, there are 25 seats seen as toss ups with 15 currently or previously held by Democrats and 10 by Republicans. Iowa, Texas, and Georgia each have multiple vacancies seen as toss ups.[1]

The Presidency

Finally, 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 the former vice president over the past month.[2]

[1] June 2020 Cook Political Report
[2] Wells Fargo Investment Institute: Policy, Politics & Portfolios, July 30, 2020

Comparison of Current Proposals:

Below is a comparison between 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 Republican proposal to address the federal deficit in light of the pandemic.

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% on 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 in 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

Source: Unpacking Biden's Tax Plan for Capital Gains

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 current tax rates while receiving tax-free distributions in the future when tax rates could be higher.[3]
- Trifecta for wealth transfer: Individuals with large taxable estates 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 exemption level of $11.58 million per individual ($23.16 million per couple). With many asset values depressed and interest rates[4] at historically low levels this could be an opportune time to consider wealth transfer planning or an intra-family loan in order to move assets to the next generation.

It should be noted 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.

In conclusion, these are challenging times and the range of possible outcomes from the November elections continue to evolve. No matter what the outcome, difficult decisions will have to be made on how to manage and fund economic decisions. We would advise you to consult with your Wells Fargo wealth planning team, in coordination with your legal and tax counsel, for assistance in planning ahead and making the most of planning opportunities currently available.

Disclosures

[3] Note that you will need to have sufficient liquidity outside their IRAs to pay any income tax liability due. Qualified Roth IRA distributions are not subject to state and local taxation in most states. Qualified Roth IRA distributions are also federally tax-free provided a Roth account has been open for more than 5 years and the owner has reached age 59½ or meets other requirements. The distribution may be subject to the 10% additional tax if taken prior to age 59½.

[4] Rates mentioned in this publication are referring to rates prescribed by the IRS that are used for Wealth Transfer strategies.