SilverStar Insights

for your wealth

SILVERSTAR WEALTH MANAGEMENT
Plan • Invest • Guide

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The economy remains strong in early 2021 and is benefiting from the huge government stimulus of $5.3 trillion dollars spent since the Covid 19 crisis started. This excess cash found in our M2 money supply, as discussed in our last issue, is driving spending. Coupled with record low interest rates, consumers are making large purchases such as homes and RVs. This new demand is having an effect of the manufacturing supply which is driving up inflationary pressures is some sectors such as lumber, building supplies, and appliances due to strong new home building permits.

Market View

2021 Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**11.8%**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**7.41%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar-denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**-2.43%**
10-Year Treasury Yield Rate (as of 03/31/21)	**1.74%**

Sources: Morningstar (Performance from 1/1/21 to 03/31/2021)
Treasury.gov (As of 03/31/2021)

Stocks continue their trend upward while bonds suffered slightly as the 10-year Treasury yield recently rose to 1.74% from .93% on 12/31/20. The surging Institute for Supply Management (ISM) Services Purchasing Manager's Index surging to a record high of 63.7% in March is significant because services represent 89% of the economy.[1]

In spite of some inflationary pressure, the Feds appear committed to keeping the interest rates low for the foreseeable future to help continue this strong economic rebound from the significant downturn of last year. As recently stated by Fed Chairman Jerome Powell, ""The economic recovery remains uneven and far from complete, and the path ahead remains uncertain….monetary policy will continue to deliver powerful support to the economy until the recovery is complete."[2] The thing to watch is how the markets interpret Biden's proposed tax changes.

1 Fritz Meyer, "What's Driving Stocks to Record Highs?" Webinar, (April 13, 2021).
2 Paul Kiernan and Michael Derby, "Fed Minutes Show Expectations for Stronger Economic Recovery," WSJ.com (April 7, 2021)

The Tax Man is Coming…Will You Be Ready?

The history of income taxes in the United States dates back to the Civil War in 1861 when Abraham Lincoln signed into law a 3% income tax on all citizens with incomes of more than $800 per year to help fund the war.

There have been many tax changes since 1861 to fund various wars and to expand government services over the years. Today, our income taxes pay for national defense, infrastructure, social insurance programs, etc.

Many people realize that taxes are necessary and do not object to paying taxes. The problem lies in the fact that our elected officials in Washington have done a poor job of spending our tax dollars wisely over the years—often on political related programs.

The poor money management of Washington has left the U.S. with nearly 30 trillion dollars in debt and growing. Some economists suggest that with only a 2% increase in income taxes, we could begin to address the growing concern of this debt. The problem lies with giving congress more tax dollars that likely be used on additional pet projects rather than being applied to the national debt.

It is obvious that financial discipline is absent in Congress. ***What is needed is not tax reform, but government spending reform, if we are to address the serious issues of our fast-growing national debt.*** Social Security and Medicare are severely underfunded and represent a large percentage of our annual national spending today. Ignoring the problem is not a solution. These important Social Insurance programs represent a significant portion of our annual spending and will not go away because too many people depend on them. The likely solution is to just raise taxes to pay for them. Unfortunately, neither political party is willing to address this painful issue, and therefore, lies the importance of tax planning for your wealth.

President Biden's recent tax proposals are not to address the bigger national debt issues. He wants his new tax law changes to fund more new spending in an "Infrastructure Spending Bill" of around $2 trillion dollars.

We will discuss some of President Biden's key proposed tax law changes along with some planning considerations for those who may be affected if these are enacted into law. He wants to increase the corporate income tax rate from 21% to 28%.

He also wants to repeal some aspects of the Tax Cuts and Jobs Act of 2017 (TCJA). In has been falsely reported that the proposed changes will only impact individuals earning over $400,000 per year. As shown below, these proposed changes can affect us all in various ways if enacted. Here are some of the proposals:

- **Equalize the tax deduction for those making pre-tax contributions to IRAs, 401(k), 403(b) and other retirement plans to a flat 26% tax deduction.** This would reduce the current tax deduction (savings) to pre-tax retirement plans for those in higher marginal tax brackets to 26% and increase the tax deduction for those in lower marginal tax brackets to 26% brackets. Everyone, regardless of their tax bracket gets the same tax deduction.

  Planning Considerations: If enacted, those in higher brackets today may want to consider after-tax Roth contributions and those in low brackets today may want to consider pre-tax contributions.

- **Eliminate the step-up in cost basis at death for capital gain treatment.** Today, if a person inherits property or a non-retirement investment, their new cost basis jumps up (or down) to the value of the asset as of the date of death to calculate the new owner's capital gain taxation when the asset is sold.

  Planning Considerations: Various income and estate planning strategies should be considered depending on the type of asset, the tax brackets of owner and beneficiaries, as well as the owner's objectives.

- **Remove the favorable long-term capital gains rates of 0-20% for those with income of $1,000,000.** This could affect those with little income when they sell a capital asset with more than $1,000,000 in capital gains.

Planning Considerations: Those with highly appreciated capital assets may want to consider selling this year as it looks more likely that these changes may not become law until next year.

- **Reduce estate tax exemption from $11,500,000 to $3,500,000 per individual.** If this becomes law, an individual will only be able to leave an estate of up to $3,500,000 without any estate taxes being due. A couple could exclude $7,000,000 with proper planning.

  Planning Considerations: If enacted, those affected may want to consider aggressive gifting strategies in addition to Irrevocable Life Insurance Trust (ILIT) to fund the potential estate tax liabilities as well as other advance estate planning strategies should be explored.

- **Raise the top individual income tax rate for taxable incomes of over $400,000 from the current 37% to 39.6%.** In addition, a "donut hole" would be created for Social Security payroll taxes. High income earners today pay Social Security payroll tax on incomes up to $142,800. The proposal would kick this payroll tax back in starting at $400,000.

  Planning Considerations: Consider various strategies to reduce taxable income such as maximizing pre-tax retirement plan contributions. Business owners should consider funding profit sharing plans or a defined benefit pension plan. Also donating highly appreciated assets to charities can reduce tax liability.

  For those over age 70 1/2, a Qualified Charity Donation (QCD) can be made from an IRA up to $100,000 per year to avoid taxation while meeting the Required Minimum Distribution (RMD).

Albert Einstein once said that the **"the hardest thing in the world to understand is the income tax."** That is why we are here. If you have questions, please call or email us.

Humor Matters

An old man went to the doctor complaining that his wife could barely hear. The doctor suggested a test to find out the extent of the problem. "Stand far behind her and ask her a question and then slowly move up and see how far away you are when she first responds." The old man excited to finally be working on a solution for the problem, runs home and sees his wife preparing supper. "Honey", the man asks standing around 20 feet away "whats for supper?" After receiving no response, he tried it again at 15 feet away and again no response. Then again at 10 feet away and no response. Finally, he was at 5 feet away "honey whats for supper?" She replies, "for the fourth time it's lasagna."

--Greatcleanjokes.com

Please send us your favorite joke and if we use it, we will send you a gift certificate to your favorite restaurant.

Words of Wisdom

"The only thing constant is change."
--Unknown

Please call us if you have any questions, would like to review your portfolio, update your financial plan, or if we can help you in any other way.

The SilverStar Team

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