Quarterly Newsletter Bringing You Financial Insights From The Leaders | VOL 14 | ISSUE 3

SIA

SIGNATURE INVESTMENT ADVISORS®
A subsidiary of Signature Estate & Investment Advisors, LLC®

THE SIA REPORT

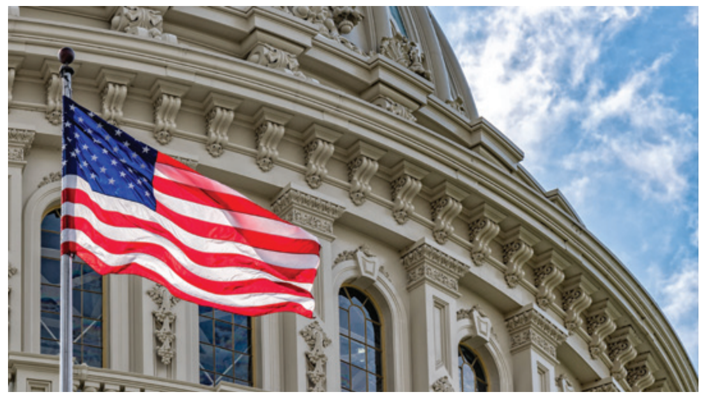
THE OUTLOOK FOR TAX POLICY

BY | **Sam Miller**
CFA®, CFP®, CAIA®
Senior Investment Strategist

On September 13, 2021, the House Ways and Means Committee published an official release of the tax provisions currently being considered, as Democrats attempt to fully reconcile the budget. These proposed laws, spanning a range of tax topics—from corporate and international taxation to individual taxation and retirement plans—are now one step closer to becoming law.

Many elements of the bill were exactly as anticipated; including higher taxes on households earning over $400,000, and a reduction of the estate tax exemption. But there were a few surprises as well—namely a potential change impacting Roth IRAs, and new rules impacting Required Minimum Distributions (RMDs) for high income individuals.

It's important to note, however, **that at this point the legislation is simply proposed and has yet to be passed by Congress or signed into law. It may (and likely will) be modified in the weeks ahead.** The following summarizes select provisions that we believe may be of interest to SIA clients.



Higher individual income tax rates

From 2022 onward, the top tax rate would increase to 39.6% (from the current 37%) for individuals with more than $400,000 in income (couples over $450,000). The bill also lowers the amount of income a taxpayer can have before finding themselves in the top bracket. For example, the current top ordinary income bracket of 37% doesn't kick-in until a 'married filing jointly' taxpayer has more than $628,300 of income. The proposal would impose the top ordinary rate of 39.6% at $450,000 of taxable income for that same taxpayer. Single filers with taxable income over $400,000 and joint filers with taxable income over $450,000 would be most impacted by this change and may benefit from accelerating income into 2021 to whatever extent possible.

Surtax on wealthy individuals

From 2022 onward, a 3% surtax would apply to individual modified adjusted gross income (MAGI) over $5 million. This threshold would apply to both single and joint filers and is separate from the existing 3.8% net investment income tax

continued on page 3...

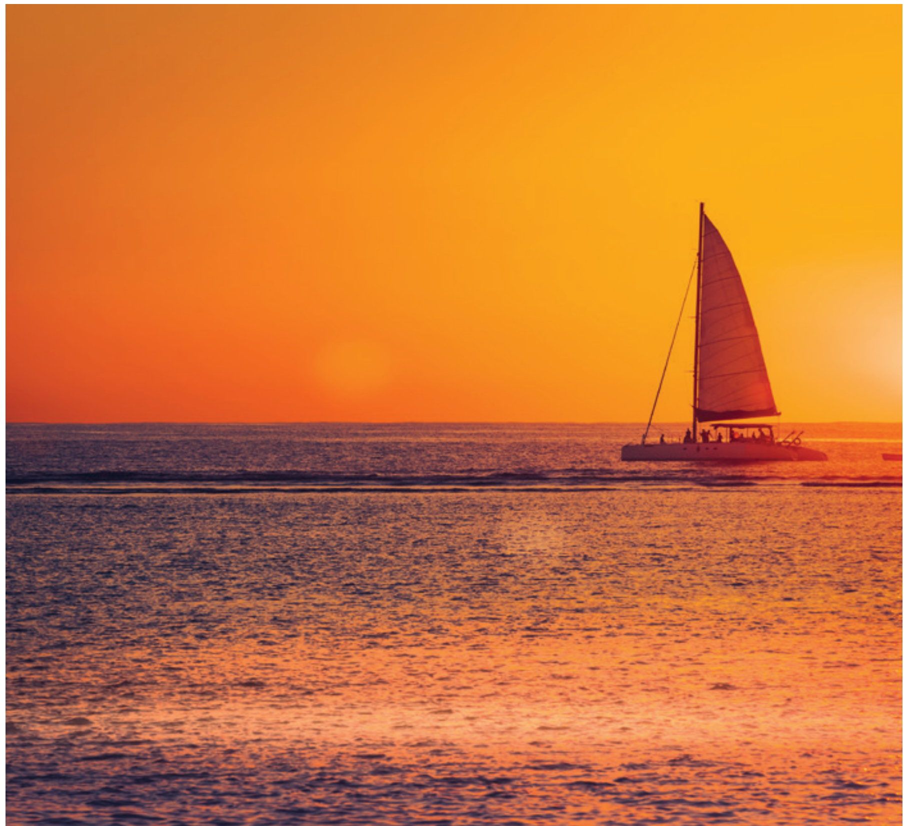
“

I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

Brian D. Holmes,
MS, CFP®, CMFC, AIF®, *President & CEO*

ABOUT SIA

Signature Investment Advisors® (SIA) is a Registered Investment Advisor firm offering investment management solutions that are tailored to meet the unique needs of affluent individuals and organizations. In partnership with your wealth manager, we bring our combined experience, expertise and high level of service to provide a dynamic process that can meet your investment objectives and goals.



Dear Clients,

We're immensely proud of the reputation we've built as your trusted financial partner, and approach our fiduciary duty to always act in your best interest with the utmost care. Thank you for the ongoing trust you place in us. And rest assured that our team stands ready to support you, your family and our shared communities whenever a need may arise.

From our SIA family to yours, we wish you continued health, safety and happiness.

It's important to note, however, that at this point the legislation is simply proposed and has yet to be passed by Congress or signed into law. It may (and likely will) be modified in the weeks ahead.

(NIIT) which applies only to investment income. It's possible there are political motivations behind this surtax. Moderate Democrats may be able to say they only raised the top rate by 2.6% (39.6-37) while more progressive Democrats can claim victory by raising the top rate on the ultra-wealthy by 5.6% (2.6+3). Notably, the 3% surcharge would also apply to trust income and capital gains in excess of $100,000.

Long-term capital gains tax increase

Any capital gain realized on or after September 13, 2021, would have a top tax rate of 25%, while gains realized before that date would be taxed at the current top rate of 20%. This would apply to individuals with income over $400,000 (couples over $450,000). The proposal aligns the income threshold for the top long-term capital gains rate with the income threshold for the top ordinary income tax rate and would be the highest top rate imposed on long-term gains since 1997. The proposal here differs significantly from President Biden's original proposal of subjecting capital gains to ordinary income rates for those taxpayers whose incomes exceed $1 million.

Gift and estate tax exemption reduction

From 2022 onward, the estate tax exemption amount would drop to around $6 million from its current level of $11.7 million. The Tax Cut and Jobs Act of 2017 doubled the lifetime estate tax and gift exemption and was scheduled to expire at the end of 2025. This proposal moves up the expiration date to December 31, 2021, at which time the exemption would revert to an inflation-adjusted $5 million. The $15,000 annual exclusion on gifts would remain in place. From a tax planning perspective, it may make sense to use as much of the current exemption amount as possible to gift assets before year-end.

Changes to grantor trust rules

Grantor trusts created on or after the date of enactment of the law would be included in the gross estate of the grantor. Existing grantor trusts would be grandfathered into the old rules, but any new contributions to an existing grantor trust would result in it being included under the new rules. This change has been in the works for almost a decade (originally proposed back in 2012), and now may finally become a reality.

New contribution limit to retirement accounts with large balances

From 2022 onward, individuals with an aggregate balance of more than $10 million in their retirement accounts, and who are in the highest tax bracket, wouldn't be allowed to contribute more to their tax-advantaged accounts. However, this restriction wouldn't apply to employer-sponsored plans, such as 401(k)s or SEP/SIMPLE IRAs.

Cap on tax advantaged account balances

From 2022 onward, individuals with an aggregate balance of more than $10 million in tax-advantaged accounts would have to take required minimum distributions (RMDs), even if not currently of RMD age (early distribution penalties would not apply). The distribution would be 50% of the taxpayer's combined account values in excess of $10 million. In addition, if the aggregate balance for all retirement accounts is over $20 million, the individual would have to distribute Roth assets until the account balances fell below $20 million.

Roth conversion limits

From 2022 onward, Roth IRA conversions would be prohibited for both traditional IRAs and employer-sponsored plans for taxpayers with incomes above $400,000. For IRA owners who may have been considering a Roth IRA conversion, it appears the window of opportunity may be closing.

Corporate tax rate increase

A new tiered system would be implemented for corporations as follows:

- Income less than $400,000 = 18%
- Income of $400,000 to $5 million = 21%
- Income greater than $5 million = 26.5%

Notably, there were several items left out of the proposal, including the potential tax basis step-up at death and the SALT deduction limitation. These items may re-emerge later in the reconciliation process as the proposal advances toward the Senate.

We will continue to monitor the legislative process and communicate with you as these proposals evolve over the coming weeks. Please reach out to your SIA Relationship Manager if you have any questions about how any of these proposed tax changes might impact your financial plan or portfolio.

THE ROAD AHEAD

Despite a resurgence of the COVID-19 Delta variant, more and more Americans continue to return to the workplace and the classroom. Both economic activity and consumer sentiment are high, and business leaders remain strongly optimistic—all indicators that bode well for a period of sustained growth.

With the end of summer and back-to-school season upon us, however, there will likely be some periodic pandemic challenges and concerns that continue to arise as Americans en masse head back indoors. Yet with so much of the U.S. population now vaccinated, these incidents will hopefully be considerably more manageable going forward.

We also pause to reflect this quarter on the 20-year anniversary of 9/11. It's hard to imagine so much time has passed (many college students today weren't even born) considering how indelible the events of that fateful day remain in our minds. It was certainly a turning point—a day where some sort of collective innocence was lost—but also a heartening example of the ability and willingness of Americans to come together despite their differences in times of crisis. A lesson we could all benefit from reflecting on given the current political, racial, and social divides.

From a financial perspective, 2021 continues to show remarkable resilience, with the S&P 500® up nearly 20% year-to-date and the holiday buying season just around the corner. Despite a few clouds still lingering on the horizon, we remain optimistic about the remainder of the year. We hope you've all been able to enjoy a relaxing and fulfilling summer (what a difference a year makes!) and are looking forward to the arrival of cooler summer evenings. Wishing you continued health as together we navigate the road ahead.

SIA

Signature Investment Advisors®
A subsidiary of Signature Estate & Investment Advisors, LLC®

Century City, CA
2121 Avenue of the Stars, Suite 1600
Los Angeles, CA 90067

T 888 349 3241 F 310 855 3955

SignatureIA.com