



## Election Focus (08/15/2020)

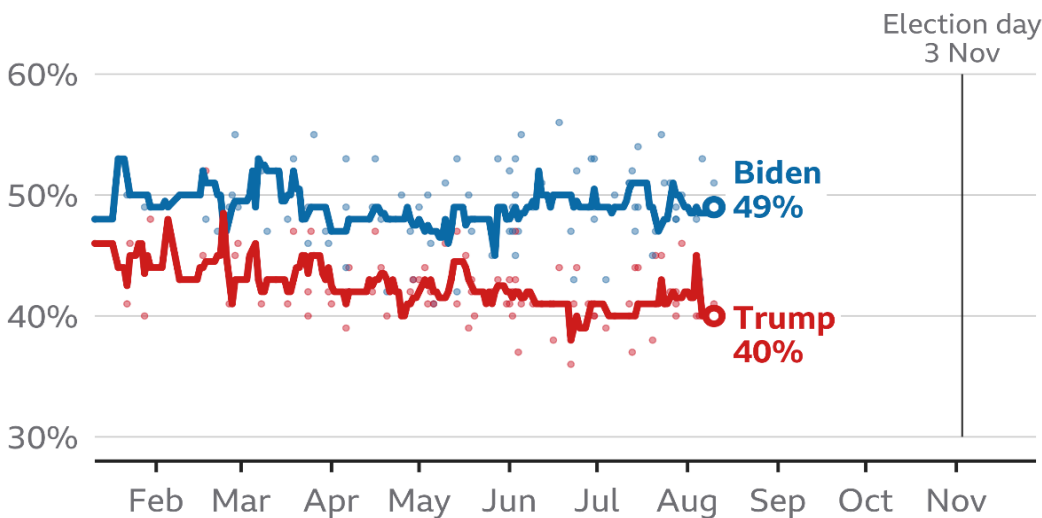
Now that Joe Biden has selected Kamala Harris as his Vice-Presidential running mate the stage is set for the November general elections, which are just 80 days away. The attention to the virus has disrupted the normal election process (campaign trail, in-person party conventions, etc.) and the election seems to be sneaking up on the nation. This election, like all elections, has policy implications that affect the direction of the country from an economic and social perspective. Our role is to understand, analyze, assess and inform on the former but not the latter. While the presidential race is the one getting the attention the Senate elections are just as important in determining future policy implications. At present the Republicans hold a majority in the Senate but Democrats could take the majority with a net 4 seat gain in the elections (or 3 net gain and the White house as the Vice-President is a tie-breaker in a 50/50 Senate). The Democrats already enjoy a majority in the House which will not be affected by this election. Currently it seems that the most likely scenarios are the following three:

- 1) Trump reelection / Republicans hold Senate
- 2) Biden election / Republicans hold Senate
- 3) Biden election / Democrats win Senate

The first two scenarios result in divided government and bipartisan cooperation is required to move policy forward. These two situations are very similar to the current state, so change would be expected to be rather incremental. The third scenario would result in one party government (for at least 2 years) and has the potential to move a democratic agenda

## **Biden has a stable lead in national polls**

Trend lines show average based on individual polls



into law much swifter. Since the presidential election tends to influence down ballot voting the third scenario merits a deeper look given the potential change.

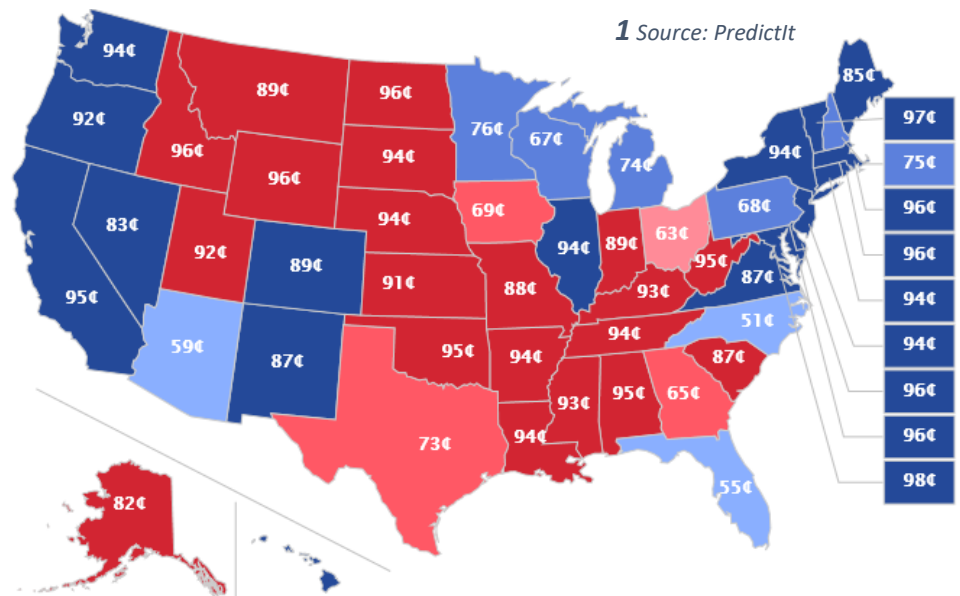
Joe Biden has held a popular majority in the polls for all of 2020 and the lead seems to have increased as of late. The impact of his choice of Vice-President has generally not been reflected yet in the latest polls. The chart to the left shows the trend line based on an average of several polls (as aggregated by Real Clear Politics).

Source: Real Clear Politics. Polls up to 10 August



In addition, PredictIt, a forum run by Victoria University in New Zealand, runs a unique real money site that allows people to trade shares on everything from the outcome of an election to a Supreme Court decision to major world events. In the U.S. Presidential election shares of Joe Biden are trading for \$0.58 while shares of Donald Trump are trading for \$0.43. This is a bit different result than in the aggregated polls but there is actual money behind people's choices with PredictIt.

The same website shows the current direction (and share price) of the likely electoral college distribution by state. The current map would suggest 218 Democratic electoral college votes (deep blue) and 125 Republican (deep red). The remaining 176, while currently leaning democrat or republican, are still up for grabs and have potential to change. If nothing did change then Joe Biden would have 334 electoral votes, more than the 270 needed to win.



While conditions can change

between now and November and polls are often incorrect, our purpose is not to predict a winner but to understand what the potential is for significant economic change should scenario 3 above come to fruition. Below are some of the details of the Biden platform currently (Sources: Biden Harris Campaign website; CRFP, TPC, Tax Foundation, Wharton School of Business):

#### Business Tax Changes

- Reverse the permanent tax cut on U.S. businesses by raising the corporate statutory tax rate from 21% to 28%.
- Create a minimum tax on corporations with GAAP Net Income of at least \$100 million of 15% of reported Net Income (with certain allowable deductions). Taxable income is often different than reported Net Income given the timing differences of certain items.
- Increase the tax rate on international net income owned by U.S. corporations (GILTI) from 10.5% to 21.0%.

#### Personal Tax Changes

- Restore the top personal income tax rate to 39.6%. Under current law the top rate is 35.0% for couples with income over \$415,000 (\$207,000 for individuals) and will rise to 37.0% in 2026. The top rate would be changed immediately to 39.6% under the Biden plan.
- Phase out pass through business deductions for business owners (sole proprietorships; partnerships, S Corps) earning over \$400,000. The 20% Qualified Business Income deduction would be available to those earning under \$400,000.
- Eliminate preferential treatment of Dividends and Long-Term Capital Gains for couples/individuals earning over \$1 million dollars. Many taxpayers have a preferential income tax rate of 15% with high earners having a top rate of 20% (plus 3.8% Medicare surtax). Under this proposal the rate would be equal to ordinary income rates (top proposed rate of 39.6%).
- Increase taxation of generational transfers. Joe Biden has indicated that he would like to roll back the current estate tax exemption of the current \$11.4 million per person (portable for couples so \$22.8 million for couples). No number was given but the limit was \$5.49 million per person prior to 2017. Also, he would raise revenue by eliminating the stepped-up basis for higher earners. No details just yet on whether current cost basis would carry over or, if the taxes would be due at death regardless if the asset was sold.
- Cap income tax deductions for high earners. This would incorporate two changes. The first would be an overall cap of 28% on deductions (so the maximum benefit of a deduction would be \$0.28/\$1.00 regardless of your marginal rate). Second the reinstatement of the Pease limitations would reduce the value of certain income tax deductions for higher earners.

- Increase social security taxes for higher earners. Currently employees and employers split the 12.4% tax on earnings up to \$137,700 in 2020 (which has increased each year since 2016 when the maximum earnings were \$118,500). The Biden campaign would create a 'donut hole' by reinstating the tax once a person reaches \$400,000 income (so income between the current maximum and \$400,000 would not be subject to tax). This would be the largest revenue generator in the plan.

Offsetting some of this would be the plan to reinstate the deductibility of state and local income taxes (SALT) which were limited to \$10,000 by the 2017 Tax Cut and Jobs Act (if not done before that as it is proposed in the current HEROES Act).

Estimates vary between several different organizations on the impact of these changes but most lie somewhere between \$3.7 - \$4.0 trillion in additional taxes over the following 10 years after passage. Most of these taxes would be borne by the top 20% of earners in the United States.

While we still need to watch election developments and make assessments after that it is only prudent to be prepared for what might come. There will be investment implications which we will be watching but we also encourage our clients to have a discussion with their tax and estate professionals to see how their personal situation might also be impacted.

**Should you have any questions please contact us.**

### **Buffalo Office**

1114 Delaware Ave.

Buffalo, New York 14209

**PHONE: 716-883-9595**

### **Jamestown Office**

214 West Fifth Street

Jamestown, New York 14701

**PHONE: 716-484-2402**

Courier Capital, LLC ("Courier Capital") is an SEC registered investment adviser located in Buffalo, New York and Jamestown, New York. Registration does not imply a certain level of skill or training. For information pertaining to the registration status of Courier Capital, as well as its fees and services, please refer to our disclosure statement as set forth on Form ADV, available upon request or via the Investment Advisor Public Disclosure Website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)). The information contained herein should not be construed as personalized investment advice or a solicitation to buy or sell any security. Investing in the stock market involves risk of loss, including loss of principal invested, and may not be suitable for all investors. Past performance is no guarantee of future results. This material contains certain forward-looking statements which indicate future possibilities. Actual results may differ materially from the expectations portrayed in such forward-looking statements. As such, there is no guarantee that any views and opinions expressed in this material will come to pass. Additionally, this material contains information derived from third party sources. Although we believe these sources to be reliable, we make no representation as to the accuracy of any information prepared by an unaffiliated third party incorporated herein, and take no responsibility therefore. All expressions of opinion reflect the judgement of the authors as the date of publication and are subject to change without prior notice. Investment products and services are not FDIC Insured, are not a deposit or bank guaranteed, are not insured by any Federal governmental agency, and are subject to investment risks, including possible loss of the principal invested.