In late October of last year we circulated Greycourt White Paper No 65, exploring the potential investment impacts of then candidate Joe Biden's plans to raise taxes on both corporations and on wealthy individuals. Since then, of course, candidate Biden has become President Biden, the Senate unexpectedly flipped to Democratic control and the calls for bi-partisanship seem to have taken a back seat.

The topic of tax increases is again in the news as the Biden administration has now formally proposed adoption of higher rates for individuals and corporations. Since the proposed changes floated in late 2020 are nearly identical to recently proposed measures, the conclusions we reached in our white paper remain valid (we have linked below our earlier white paper for your convenience). In brief, our major conclusions were:

1. Increasing corporate tax rates may hurt stock prices by pressuring corporate profit margins, although depending on how government elects to spend its higher tax revenues, overall economic activity may increase, potentially offsetting some of the damage.

2. The proposed increase in tax rates affects a limited proportion of the broader equity ownership base and therefore it may only lead to limited selling of equities on the margin. A significant portion of this group may also likely remain long term holders of equities despite the changes. We acknowledge that there is headline risk here that could create shorter-term volatility as pundits and politicians weigh in.

3. Increasing the top marginal income tax and short-term capital gains tax rate to 39.6% from the current 37% alone will have a modest impact on after-tax returns for UHNW taxable investors.

4. Harmonization of long-term and short-term capital gains tax rates at the 39.6% rate is the most problematic proposed change as it disproportionately impacts traditionally tax-efficient and now highly appreciated asset classes like real estate and equities (both public and private).

5. Ironically, asset classes that have otherwise been relatively tax unfriendly, such as corporate credit and some forms of diversifying hedge strategies, will likely become relatively less unattractive.

As we all know, just because the Biden administration has proposed higher tax rates does not mean they will be enacted into law. There is only a razor-thin Democratic majority in the Senate and a narrow one in the House too, and political moderates like Joe Manchin of West Virginia among others will almost certainly seek to temper the current Biden administration's proposal. It's also prudent to remember that the amplitude and frequency of tax policy changes appear to be increasing in correlation with elevated political strife. As a result, the decision to change multi-generational investment plans when tax policy may last only for a presidential term or two will require as much long-term perspective as possible.

We will continue to watch developments in Washington and evaluate any portfolio and/or manager changes that may be warranted as a result of impending tax law changes. As always, please do not hesitate to reach out if you have questions or would like to discuss in greater detail how these changes may impact your individual portfolio.

Greycourt White Paper No. 65: Investment Implications of a Biden Win

As always, please do not hesitate to call or email us if you have any questions.

Best regards,

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