SEIA
SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®
Established 1997
Quarterly Newsletter Bringing You Financial Insights From The Leaders | VOL 14 | ISSUE 3
THE SEIA 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 SEIA 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 4

SEIA IN THE NEWS

Barron's Top 100 RIA Firms 2021

Washington Business Journal - Largest Wealth Management Firms in Greater D.C.

Los Angeles Business Journal - Best Places to Work 2021

Financial Advisor Magazine 2021 50 Fastest Growing RIAs

Financial Advisor Magazine 2021 RIA Ranking

Los Angeles Business Journal - Money Management Firms 2021

Los Angeles Business Journal - Leaders of Influence: Wealth Managers 2021

Brian D. Holmes, President & CEO

InvestmentNews Best Places to Work for Financial Advisers 2021

Forbes Best-in-State Wealth Advisors 2021

Vince DiLeva, Sr. Partner

The Barron's Top 100 RIA Firms 2021 is given by Barron's and is based on assets, revenue, and quality of practice. Qualitative factors such as the advisor's experience, advanced degrees and industry designations, size, shape and diversity of the team, charitable and philanthropic work, and compliance records are also considered. RIA firms apply for this award. The firms pay a fee in order to reference this award either upfront to obtain the award or paid on the back-end after the award is granted to obtain plaques, article reprints or similar indicia of the award.

The 2021 Washington Business Journal (WBJ) Largest Wealth Management Firms in Greater D.C. is given by the WBJ and is a ranking by the number of Metro-area financial planners within the firm, with ties broken by revenue. Data used is as of December 31, 2020. Applicants complete a survey to be considered for the award.

The 2021 RIA Survey & Ranking Top 50 Fastest-Growing Firms by Financial Advisor (FA) is a ranking based on percentage growth in assets from 2019-2020. FA's ranking orders firms from highest percentage growth in assets to lowest, of firms that have more than $500 Million in AUM.

The 2021 RIA Ranking by Financial Advisor (FA) is a ranking based on assets under management at year end of independent RIA firms that file their own ADV with the SEC. FA's RIA ranking orders firms from largest to smallest, based on AUM reported to FA by firms that voluntarily complete and submit FA's survey by FA's deadline.

The 2021 Los Angeles Business Journal (LABJ) Money Management Firms is given by the LABJ and is a ranking based on assets managed in Los Angeles County as of December 31, 2020. Applicants complete a survey to be considered for the award.

The 2021 Los Angeles Business Journal (LABJ) Leaders of Influence is an annual award that recognizes wealth managers in Los Angeles for "contributions to the local economy and the financial stability of the individuals and families that live here". The wealth managers apply for the award by completing a questionnaire, and recipients are chosen by the LABJ.

The 2021 InvestmentNews Best Places to Work award is determined by the results of an employee survey conducted for firms who have applied for the designation. Participants may pay a fee to InvestmentNews to promote this designation.

The Forbes 2021 ranking of Best-In-State Wealth Advisors is based on an algorithm of qualitative criteria, mostly gained through telephone and in-person due diligence interviews, and quantitative data. Advisors that are considered have a minimum of seven years experience, and the algorithm weights factors like revenue trends, assets under management, compliance records, industry experience and those that encompass best practices in their practices and approach to working with clients. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Forbes does not receive a fee in exchange for rankings.

Third-party rankings and recognitions are no guarantee of future investment success and do not ensure that a client or prospective client will experience a higher level of performance or results. These ratings should not be construed as an endorsement of the advisor by any client nor are they representative of any one client's evaluation.

“

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 SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to align the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to align the client's 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 SEIA family to yours, we wish you continued health, safety and happiness.

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.

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 SEIA advisor if you have any questions about how any of these proposed tax changes might impact your financial plan or portfolio.

SEIA NEW & NOTEWORTHY

At SEIA, the commitment and compassion of each individual member of our team remains a hallmark of our firm, and the single greatest catalyst for our continued growth. This quarter, we're thrilled to welcome a new advisor to the team, as well as honor two leaders who've been named Senior Partners with the firm.

Tom West
CLU®, ChFC®, AIF®

Tom was recently named a Senior Partner at the firm. Working out of our Tysons, VA office, he's distinguished himself as one of the financial industry's foremost care planning experts—sought out by publications such as the Wall Street Journal, the Washington Post, the New York Times, and Barron's for his insights on strategies to help families preserve their wealth from a healthcare or housing crisis.

Tom and his team are the architects of the **Lifecare Affordability Plan™**—a revolutionary program designed to provide a holistic approach to financial planning for care.

Michael Evans
CFP®, CMFC®

Mike was also recently named a Senior Partner at SEIA. For nearly 20 years, he's been a vital contributor to both the growth and reputational integrity of our organization, and we're delighted to acknowledge that contribution with this much deserved recognition.

A lifelong Orange County resident, Mike and his team work out of SEIA's Newport Beach office. And their special expertise in the areas of retirement planning, wealth management, and investment management are integral to our firm's holistic planning approach.

Patrick Currall
MBA, CFA®

In July, Patrick joined the SEIA family from Citibank—bringing more than 20 years of financial advisory and portfolio management experience to helping clients solve complex wealth challenges. Working out of our Newport Beach office, Patrick's addition to the team is part of our strategic commitment to further expand SEIA's presence throughout the southern Orange County and San Diego areas.

In addition to his advisory work, Patrick is also a co-founder of The Alaska Adventure Project—a nonprofit devoted to giving veterans who suffer from PTSD and TBI a chance to begin supplanting some of their traumatic and painful memories with newer, positive memories through once-in-a-lifetime Alaskan adventures.

We're confident his planning and portfolio management insights will be a tremendous addition to both our team and our clients.

SIGNATURE FUND *for* GIVING

The Signature Fund for Giving (SFFG or Fund) is dedicated to enhancing SEIA's relationship with our partner organizations to empower our community's youth.

SFFG funded $5,000 to A Place Called Home's (APCH) Back to School Event where APCH provided over 1,000 local LA Unified School district students with materials to be prepared for the upcoming school year. In addition, SFFG gave to the APCH Food Drive where we packed food for 156 families to receive. Since the pandemic began, APCH has been providing weekly groceries to the families they serve.

If you have any questions regarding our fund or how to participate, we invite you to contact Hayley Wood at 310-712-2323 or hwood@seia.com.

SEIA

Signature Estate & Investment Advisors, LLC®

SEIA.COM

HEADQUARTERS

Century City, CA
T 310 712 2323
F 310 712 2345

Newport Beach, CA
T 949 705 5188
F 949 691 3065

Pasadena, CA
T 626 795 2944
F 626 795 2994

Redondo Beach, CA
T 310 712 2322
F 310 712 2377

San Mateo, CA
T 800 723 5115
F 310 712 2345

Tysons, VA
T 703 940 3000
F 703 738 2259

Houston, TX
T 832 378 6110
F 832 378 6109

Beaverton, OR
T 703 940 3484
F 571 444 6249

Denver, CO
T 310 712 2323
F 310 712 2345

New York, NY
T 332 208 7465
F 703 738 2259