

April 28, 2021

Good Afternoon,

Markets seem to be on pause as they await corporate earnings reports, direction from the Fed, and the Biden administration's ever-expanding wish list and proposed tax increases to pay for it. Earnings have been strong with most companies showing solid growth. The Fed concluded its two-day meeting today and has kept rates near zero while anticipating robust economic expansion and some higher inflation. President Biden speaks to Congress tonight and will pitch his multiple proposals which reportedly have combined price tags of more than \$4 trillion.

News came out last Thursday that the Administration will propose that the capital gains rate for anyone making over \$1 million will rise from 20% to the ordinary income marginal rate of 39.6% and that the Obamacare investment income surtax of 3.8% remain in place. Equity markets fell about 1% on the news. While not many are concerned about higher taxes for such high earners, a drastic increase in capital gains rates could pressure asset prices as buyers demand greater price appreciation in order to achieve the same after-tax returns on their investments. A sharp rise in capital gains tax rates could also lead to significant selling pressure and sharp declines in equity markets as investors try to beat the rate increase. Any plan should be phased in gradually, if approved.

Perhaps we need to spend a little money to beef up enforcement and tax collections instead of raising them. The government projected in September 2019 that our nation's "tax gap," i.e., the difference between what all taxpayers should have paid compared to what they actually paid, was \$441 billion per year. On April 13th, IRS Commissioner Charles Rettig testified before the Senate Finance Committee that the "tax gap" could be as high as \$1 trillion annually, or more than double the previous estimate (source: IRS). Simplifying the tax code would go a long way to eliminate cheating.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Well, it didn't take long. My Reds have dropped like a stone out of first place and are headed for the bottom of their division. Clearly, they're not cheating enough. Have a great week.

Wade

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