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CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

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Dear Fellow Investors,

We thought it might be helpful to summarize some of the proposed changes being discussed regarding infrastructure and taxes. Below are some key details compiled from various sources. Please keep in mind, DA Davidson does not give tax or legal advice. Please consult your professionals for specifics related to your situation.

The Bipartisan Infrastructure Investment and Jobs Act has been proposed to make transformational and historic investments. The $1.2 Trillion plan includes $579 Billion in new spending and would reportedly be funded by reducing the IRS tax gap and redirecting unused funds from unemployment benefits and COVID-related emergency programs. Proponents say it will modernize and expand transit and rail networks across the country, repair and rebuild roads and bridges, build a national network of electric vehicle chargers, electrify thousands of school and transit buses, eliminate lead service lines and pipes, connect every American to high-speed internet, build thousands of miles of new electric transmission lines, and prepare our infrastructure for the impacts of climate change, cyber-attacks and extreme weather events. Spending / Investment breakdown is as follows (in Billions):

TRANSPORTATION	**$312**
Roads, bridges, major projects	$109
Safety	$11
Public Transit	$49
Passenger & Freight Rail	$66
EV infrastructure	$7.5
Electric buses / transit	$7.5
Reconnecting communities	$1
Airports	$25
Ports & Waterways	$16
Infrastructure Financing	$20

OTHER INFRASTRUCTURE	**$266**
Water infrastructure	$55
Broadband infrastructure	$65
Environmental remediation	$21
Power infrastructure	$73
Western Water Storage	$5
Resilience	$47

The American Families Plan is touted as an investment in our children and our families – helping families cover the basic expenses that so many struggle with, lowering health insurance premiums, and continuing to reduce child poverty. Goals include growth of the middle class, expand the benefits of economic growth to all Americans, and leave the US in a more competitive position. The plan will:

- Add at least 4 years of free education – provides universal, high-quality preschool to all 3 and 4 year olds and provides 2 years of free community college.
- Direct support for low and middle income families – ensures that they spend no more than 7% of income on child care, creates a national, comprehensive paid family and medical leave program,

provides nutrition assistance to families who need it most, and expands access to healthy meals for our nation's students.

- Extend tax cuts for families with children – will extend key tax cuts that benefit lower and middle income workers and families including the Child Tax Credit, Earned Income Tax Credit, the Child & Dependent Care Tax Credit, and health insurance tax credits.
- Provide up to $1,400 in additional assistance to low-income students by increasing the Pell Grant award and also allow DREAMers to access Pell Grants.
- Increase college retention & completion rates by creating a grant program for schools that serve high numbers of low-income students, particularly community colleges. Grants will go to schools that adopt innovative solutions such as offering child care, mental health services, faculty & peer mentoring, emergency basic needs grants, practices that recruit and retain diverse faculty, transfer agreements between colleges, and evidence-based remediation programs.
- Provide 2 years of subsidized tuition and expand programs in high-demand fields at Historically Black Colleges & Universities, Tribal Colleges & Universities, and Minority-Serving Institutions.
- American teachers – address shortages, improve training and support, and boost teacher diversity.
- Unemployment Insurance reform – modernization, equitable access, and fraud prevention. Want to automatically adjust the length and amount of unemployment insurance benefits workers receive dependent upon economic conditions.
- Give the IRS the authority to regulate paid tax preparers.

The American Families plan would largely be funded by changes to taxes with the most recent proposal including about $1 Trillion of tax increases on high-income households, $1 Trillion of tax increases on corporations, $120 Billion from tougher tax enforcement, $700 Billion from drug-pricing policy changes, and an additional $600 Billion of tax revenue from the resulting economic growth. Key elements of the proposed changes are as follows:

CORPORATIONS / ENTITIES

- Corporate tax rate increases to 26.5% from the current 21% with smaller corporations receiving tax brackets with lower rates. Smaller corporations would face an 18% rate on income up to $400,000, 21% on income up to $5 million, and 26.5% on any income above that. Graduated rate would phase out for companies earning more than $10 million per year.
- Foreign income minimum tax would increase to 16.6% from 10.5%.
- Top tax rate on pass-through business income would exceed 50% in most states. Entities such as sole proprietorships, S corporations, and partnerships would see the top marginal tax rates increase, high-income taxpayers would see an additional surcharge, limit the maximum pass-through deduction, and amend the tax base of net investment income tax to include income derived from the "active" part of a business.

INDIVIDUALS

- Top basic income tax rate would increase to 39.6% from 37% with the top bracket starting at $400,000 for individuals and $450,000 for married couples.
- 3% surtax on individuals and married couples with adjusted gross income above $5 million.

CAPITAL GAINS / DIVIDENDS

- Would increase long-term capital gains and dividends rate to 25% from 20%. This does not include the rules initially proposed that would have imposed taxes on unrealized gains at death.
- When combined with an existing 3.8% investment income tax and the surtax, the new top rate on capital gains could be as high as 31.8%.

ESTATE PLANNING

- Estate exemption of $10 million and indexed for inflation (resulting in an amount of $11.7 million for 2021) is set to sunset after 12/31/2025. This would be reduced to $5 million indexed for inflation (resulting in an amount of $6.02 million for 2022) beginning 1/1/2022.
- Grantor Trusts – currently, trust property is treated as being owned by the grantor for income tax purposes, but with the trust property outside of the grantor's estate for estate tax purposes. New proposals would eliminate many of the benefits of establishing grantor trusts such as grantor retained annuity trusts (GRATs), spousal lifetime access trusts (SLATs), qualified personal residence trusts (QPRTs), and irrevocable life insurance trusts (ILITs).
- Valuation Discounts – new proposals would eradicate discounts if a donor makes a gift of a minority or non-controlling interest in a private entity if the assets include publicly-traded securities, non-operating cash or other passive, non-business assets.

RETIREMENT ACCOUNTS

- Prevent high-income earners ($400,000 of income if single, $450,000 of income if joint filers) from converting pre-tax funds in a qualified retirement plan to a Roth account and pre-tax IRA balances into Roth IRAs.
- All taxpayers, regardless of income, would not be able to convert after-tax contributions made to qualified retirement plans or IRAs to a Roth account or Roth IRA.
- Regardless of age, taxpayers earning more than $400,000 if single, $450,000 for joint filers, with a combined retirement balance (will include IRA, Roth IRA, defined contribution plans) exceeding $10 million would be required to withdraw 50% of the balance over $10 million. Would also prohibit any additional contributions to traditional and Roth IRAs if balance is over $10 million.

Please keep in mind that this is a dynamic process with negotiations surrounding these initial proposals taking place as we write this. In general, we have been pleased to see bipartisan support for a proposal to invest in the physical infrastructure of our country that is sorely needed. Our main point of contention would certainly be in regards to retirement accounts. In our opinion, we should be doing everything we can to incentivize long-term investing. If an individual is able to successfully do this and accumulate retirement assets greater than $10 million, we believe they should be celebrated and not punished. Investing for the long-term should be encouraged by our political leaders as it remains a valuable tool that can level the playing field and shrink income / wealth inequality. We reiterate our faith in the checks and balances of our political system that tends to squash many of the more extreme proposals. We're seeing this currently take place amongst the Democratic party as all of these proposals do not have universal support. At the end of the day, we remain confident in our thoughts post-election – taxes will move higher but not radically so.

As always, we welcome your feedback and would love to discuss how these proposed changes may impact your situation. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio's Mission: To provide diversified, disciplined long-term investment solutions, service and guidance to help our clients achieve, and maintain, their "Financial Independence".***

Sincerely,

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