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ALJIAN CAPITAL MANAGEMENT

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Hello Friends,

"Our new constitution is now established and has an appearance that promises permanency; but in this world nothing can be said to be certain except death and taxes." Those words were written in a letter to Jean-Bapiste Le Roy in 1789 by Benjamin Franklin. The phrase is often quoted and rings as true today as it did 233 years ago. I try to have a bit of fun with this quarterly letter, and occasionally I get a bit outrageous, so now I want to talk a bit about death and taxes.

When Franklin wrote those words, there was no income tax. That didn't come along until 1861 when Abraham Lincoln initiated a 3% tax on income to help cover the cost of the Civil War (please, don't tear down the statues). As we all know, the rate and amount of tax has risen substantially through the years. In November the House passed its version of Biden's Build Back Better (BBB) legislation that promises to raise taxes on the rich and to force the wealthiest Americans to pay their fair share.

There are new corporate tax hikes in this proposed legislation, but there is also a provision that will super-size the IRS. Our legislators want to spend an extra $80 billion for the IRS and hire 87,000 new agents. And they want to monitor our bank accounts for transactions greater than $600. My hunch is that millions of Americans will now be the target of an IRS audit. I don't think that these auditors will be trying to get their audit victims a larger refund, instead it's Big Brother trying to squeeze more tax revenue out of everyone. The IRS should have little problem hiring 87,000 new agents as these jobs are likely to have generous pension benefits, unlimited sick leave, fully paid healthcare, and job security.

Every time I hear "pay your fair share", I must chuckle. The proposed BBB legislation restores the State And Local Tax (SALT) deduction up to $80,000. If this isn't a tax break for the wealthy, I don't know what is. The deduction allows someone with two or three homes (like many members of Congress) to deduct those taxes as an itemized deduction. Of course, most of this deduction was taken way in 2017, and the wealthy folks in the Blue States were quite upset about paying their fair share. Many want this tax break restored. The proposed BBB legislation ran into some resistance in the Senate, and it remains unclear what will happen in 2022. Stay tuned.

Death can be very expensive. Your Traditional IRA can be passed on to your spouse, and the Required Minimum Distribution for someone over age 72 can continue based on the inheriting person's age. But when the Traditional IRA is distributed to a non-spouse, that person(s) will need to completely exhaust the entire balance within ten years. The distribution will all be taxed at ordinary state and federal income tax rates. So, when you open the envelope of your 12/31 IRA statement, and glance at the yearend valuation, keep in mind that up to 50% of that sum could end up in the government coffers in future years.

When you open that year end statement, I'm hoping that it will bring a smile to your face. We've enjoyed a strong bull market for the past few years and now would be an excellent time to take and spend some of those funds. If you have a mortgage, need a new car, contemplating a kitchen remodel, or whatever, it's better to spend some of the money than to be the richest person in the cemetery. So don't hesitate to call one of us and request a withdrawal. Or better yet, take the funds out of the other brokerage account that hasn't performed as well as the one that you have with us.

And on a final note, let's hope that Ben Franklin's comment about the permanency of the Constitution is as certain as death and taxes. Jessica and I both wish you a very Happy New Year.

Sincerely,

Jim Aljian

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