

Prepare for any potential Election outcome



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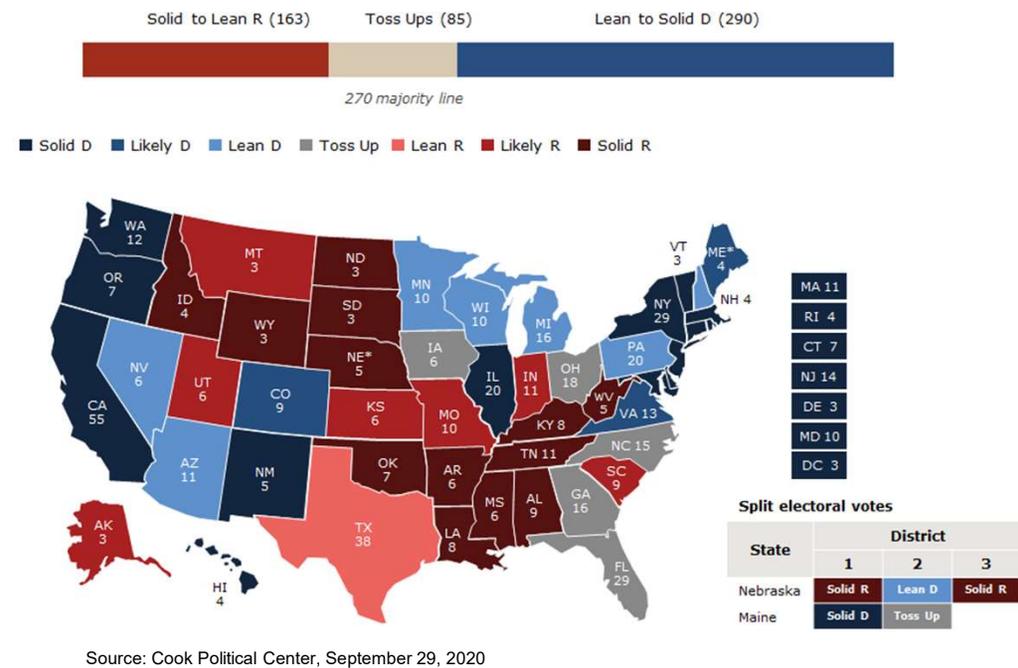


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Potential Election outcomes run the gamut

1. Trump re-elected; Republican majority Senate
2. Biden elected; Democrat majority Senate
3. Biden elected; Republican majority Senate

Current projections suggest Democrats will retain control of the House and is assumed in all scenarios



How likely is a retroactive tax rate increase?

Effective dates of past tax rate changes:

- Since the Tax Reform Act of 1986, 13 laws have changed corporate, individual, and/or capital gains rates
- Only one law (the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66)) resulted in a retroactive tax *increase*
- Other tax rate changes were retroactive tax *reductions* or were prospective only
- Most rate changes were effective at the beginning of the next calendar year, but some capital gains rate changes took effect on a mid-year date tied to a specific action

Business tax proposals

Proposal	Current law	Trump proposals	Biden proposals
Corporate tax rate	21% rate for tax years beginning after 12/31/2017.	No change. Note: White House officials have said President Trump may announce a proposal to lower current 21% corporate tax rate.	Increase corporate income tax rate to 28%.
Minimum tax	N/A	No change.	Impose 15% minimum tax on large companies' book income, with credit for taxes paid to other countries; NOL
Pass-through entities	20% deduction for non-wage portion of pass-through income. Deduction limited to the greater of 50% of W-2 wages or 25% of W-2 wages plus 2.5% of the unadjusted basis, immediately after acquisition, of all qualified property held in the qualified business for taxpayers with income over \$315,000 (married) or \$157,500 (individuals).	Make permanent TCJA pass-through business provisions set to expire after 2025.	Phase out 20% deduction for income above \$400,000.
Anti-base erosion regime (Subpart F)	US shareholders of CFCs subject to current US tax on GILTI with a 50% deduction. An 80% foreign tax credit is permitted. The deduction is reduced to 37.5% for tax years beginning after 12/31/2025.	No change.	Double the minimum (GILTI) tax on profits earned by foreign subsidiaries of US firms from 10.5% to 21%; eliminate 10% QBAI exception; and apply on country-by-country basis.

Business tax proposals

Proposal	Current law	Trump proposals	Biden proposals
Onshoring	N/A	Provide a new tax credit for US companies that relocate manufacturing facilities to the United States from China.	New offshoring tax penalty : 10% surtax on profits of any production (or services) by a US company overseas for sales back to the United States. New 'Made in America' tax credit : 10% advanceable tax credit for companies making investments that will create jobs for American workers.
Energy tax incentives	Available incentives include the investment credit, renewable energy credit, and renewable fuels credit.	Repeal the energy investment credit.	Enhance tax incentives for carbon capture, use, and storage. Expand tax deductions for energy technology upgrades, smart metering systems, and other emissions-reducing investments in commercial buildings.
Other credits	Available credits include the work opportunity credit, low income housing credit, new markets credit, and employee retention credit.	No change.	Expand and make permanent the new markets tax credit. Reform opportunity zones . Create child care facility construction credit.

Individual tax reform proposals

Proposal	Current law	Trump proposals	Biden proposals
Individual rates	Seven rate brackets (10%, 12%, 22%, 24%, 32%, 35%, and 37%).	Make permanent TCJA individual tax rate cuts set to expire after 2025.	Restore pre-TCJA tax rates for income above \$400,000 (including an increase in the highest rate to 39.6%).
Capital gain/ Qualified dividend rates (individuals)	Maximum 20% rate for long-term capital gains and qualified dividends.	No change. Note: President Trump has said he may propose lowering the maximum rate to 15%.	Tax capital gains and dividends as ordinary income for individuals with income above \$1 million. Tax unrealized capital gains at death.
Individual – standard deduction	For 2020: \$12,400 single/ \$24,800 joint (adjusted for inflation based on chained CPI). Chained CPI does not expire after 12/31/2025.	Make permanent TCJA changes set to expire after 2025.	No change.
Individual – itemized deductions	No overall limitation on itemized deductions. Deduction for state and local sales, income, and property taxes is capped at \$10,000.	Make permanent TCJA changes set to expire after 2025.	Restore limitation on itemized deductions for individuals with income above \$400,000. Limit tax benefit of itemized deductions to 28%.
Energy tax credits	Available credits may include nonbusiness energy credits and alternative motor vehicle credits.	Eliminate the plug-in electric drive motor vehicle credit & credit for residential energy efficient property.	Restore full electric vehicle tax credit. Reinstate solar investment tax credit and tax credits for residential energy efficiency.

Individual tax reform proposals

Proposal	Current law	Trump proposals	Biden proposals
Other credits	Available credits may include child and dependent care credit, education credits, child tax credit, and earned income tax credit (EITC).	Create tax credit for individuals and businesses who donate to organizations that provide 'Education Freedom Scholarships' for non-public education.	Create family caregiver credit. Extend EITC to workers age 65 and older without qualifying children. Exclude student loan forgiveness from taxable income. Enhance child care credit. Create new homeowner, renter, and renovation tax credits.
Estate tax	Maximum 40% tax rate (\$11,580,000 exemption for 2020). Value of property included in gross estate is FMV on the decedent's date of death.	Make permanent TCJA changes set to expire after 2025.	Tax unrealized capital gains at death. Restore estate, gift, and GST rules at 2009 levels.
Payroll tax	12.4% Social Security tax applies to annually adjusted wage base limit (\$137,700 for 2020).	No change. Note: President Trump issued an executive order to provide an optional deferral of certain employee payroll taxes from 9/1/20 to 12/31/20.	Apply Social Security payroll tax to income above \$400,000.
Retirement plans	Elective deferral to 401(k) plans (\$19,500 limit for 2020). IRA contributions (\$6,000 limit for 2020) subject to income limitations.	No change.	Increase tax preferences for middle-income taxpayers' contributions to 401(k) plans and IRAs. Provide automatic enrollment in IRAs for workers who do not have a pension or 401(k)-type plan.

Private Equity takeaways - the highlights

Carried interests and capital gains

- Previous indications and recent legislative proposals to eliminate carried interest loophole
 - Proposal from Senators Warren (D-Mass.), Baldwin (D-Wisc.), and others to tax carried interest at higher earned income rates
 - Bill from Senator Wyden (D-Ore.) requiring hedge fund managers to recognize compensation at ordinary income rates and be subject to self-employment taxes
 - Wyden bill also proposed applying mark-to-market regime for certain high income taxpayers
- Biden's proposed increase in long-term capital gains rate to ordinary income rates for individuals earning more than \$1M

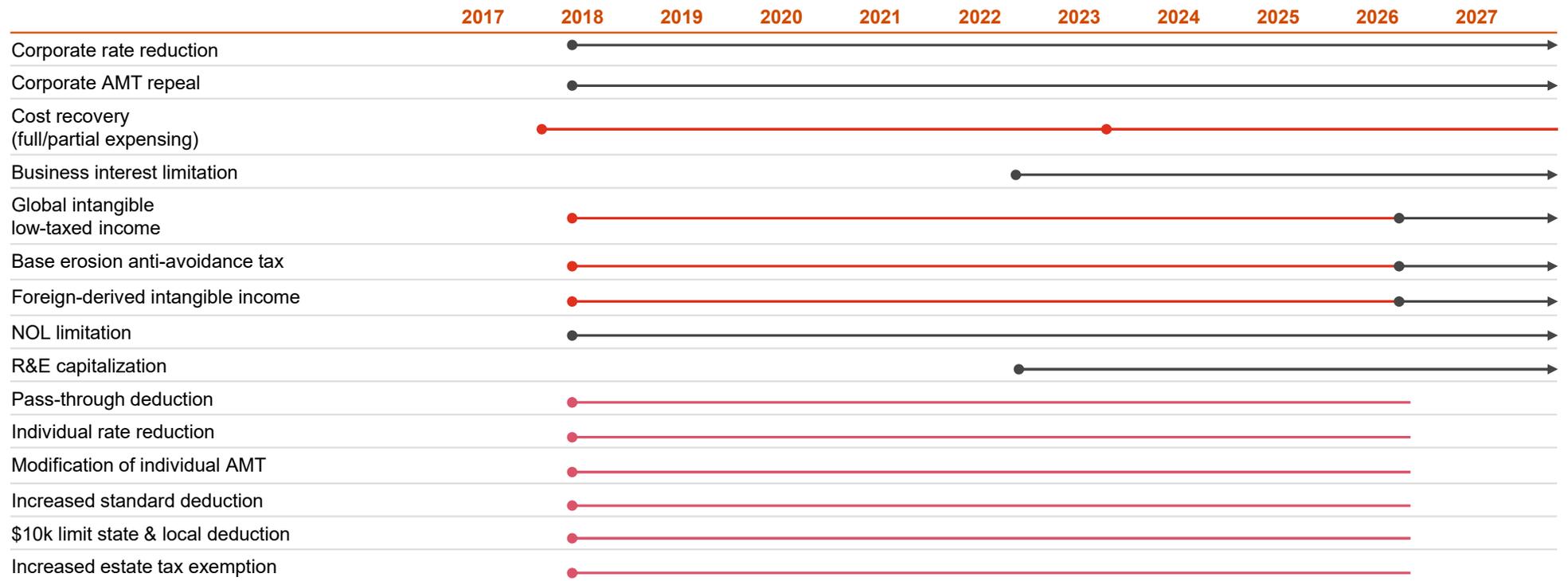
Increased corporate tax rate to 28%

- Higher tax expense
- Changes in value of deferred tax assets and liabilities
- Increases cost of capital for equity-financed investments
- Increases incentive for debt financing
- Companies may want to consider accelerating income and M&A activity if the likelihood of tax increase gains traction
- Changing entity classification does not appear to be a significant consideration

Additional general proposal impacts

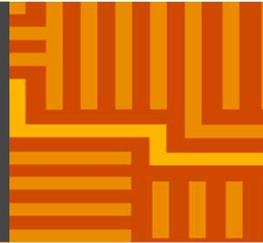
- Increased individual tax rate on incomes above \$400k may impact certain pass-through structures similar to impacts from increased corporate tax rate
- Higher tax rates for corporations and individuals puts more focus on flow through deals to minimize two layers of tax and potential TRA benefit on exit
- Proposals to increase taxation of international operations (through decreased Section 250 deduction for GILTI and increased corporate tax rate) increases tax expense for investments in CFCs
 - Indications are that Section 250 deduction for FDII would not be impacted under Biden proposals
- Elimination of certain deductions or additional tax imposed in various sectors (such as fossil fuels, prescription drug advertising, real estate, large financial institutions, etc.) may impact investment strategies

Some tax reform provisions are ‘permanent’ but others are temporary/subject to sunset



■ Temporary
 ■ Permanent

Final thoughts



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Additional Resources

Road to Election 2020 Pulse Survey

Recurring survey of executives



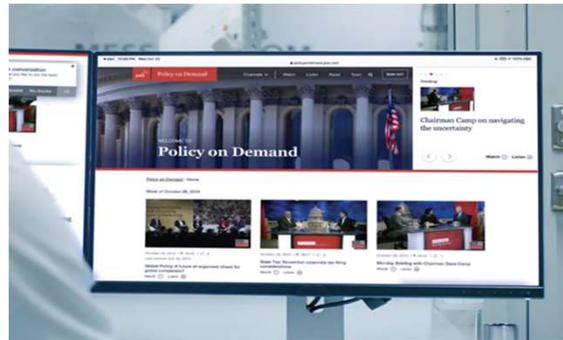
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