



# “American Jobs Plan” Infrastructure and New Taxes

Hosted by:

Johnson Financial Group Financial Advisors

Guest Speaker:

Brian Andrew, Chief Investment Officer at Johnson Financial Group

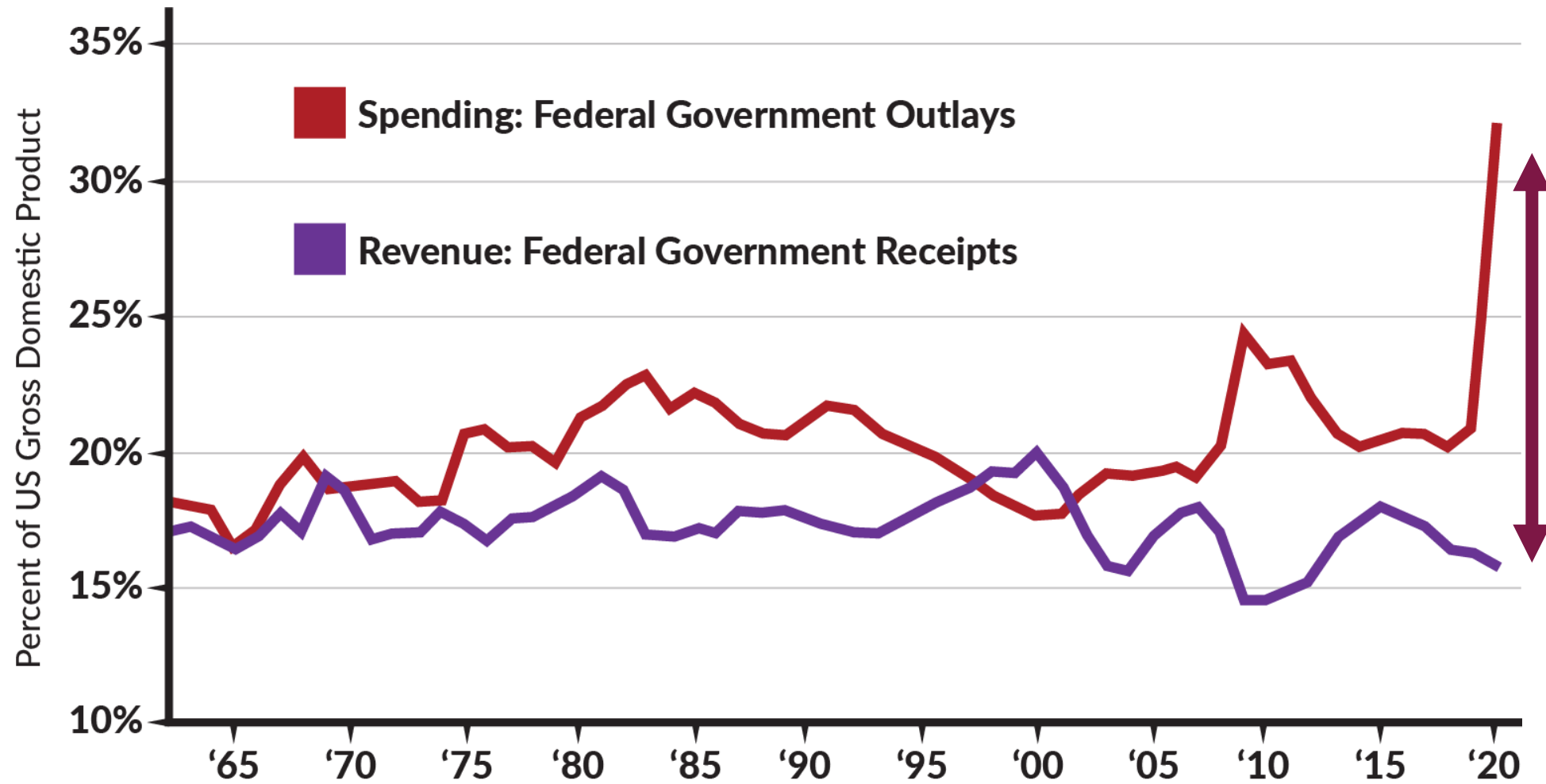
*April 28, 2021*

# Agenda

- Components of the Plan
- Changed and New Taxes
- Market Impact
- Portfolio Approach
- Q&A



# U.S. Federal Deficit



Source: Invesco Federal Reserve Bank of St. Louis, CBO, 12.31.20



# Infrastructure Proposal

Policy	Dollars, in billions
Transportation	\$621
Safe drinking water	\$111
Broadband	\$100
Power infrastructure	\$100
Clean energy tax credits	\$400
Buildings	\$368
Home care workers for elderly/disabled	\$400
Research and development	\$200
Manufacturing	\$300
Workforce development	\$110
Tax increases	-\$1,614
<b>TOTAL SPENDING</b>	<b>\$2,710</b>
<b>TOTAL TAXES</b>	<b>-\$1,614</b>
<b>TOTAL DEFICIT INCREASES (+)</b>	<b>\$1,096</b>

Source: Cornerstone Macro, Office of Management and Budget



# Targeted Relief

Spending	Dollars, in billions
Paid Leave	\$550
Extended CTC thru 2025	\$420
National childcare	\$350
Universal pre-K	\$150
Free community college	\$70
Extended premium credit thru 2025	\$55
<b>OFFSETS</b>	
Drug price negotiation	-\$580
Tax cap gains / div at 39.6% & repeal step up	-\$430
Limit itemization (phase and 28% cap)	-\$320
Raise top rate	-\$110
<b>TOTAL SPENDING</b>	<b>\$1,595</b>
<b>TOTAL TAXES</b>	<b>-\$1,440</b>
<b>TOTAL DEFICIT INCREASE (+)</b>	<b>\$155</b>

Source: Cornerstone Macro, Office of Management and Budget



# Proposed New Personal Income Taxes

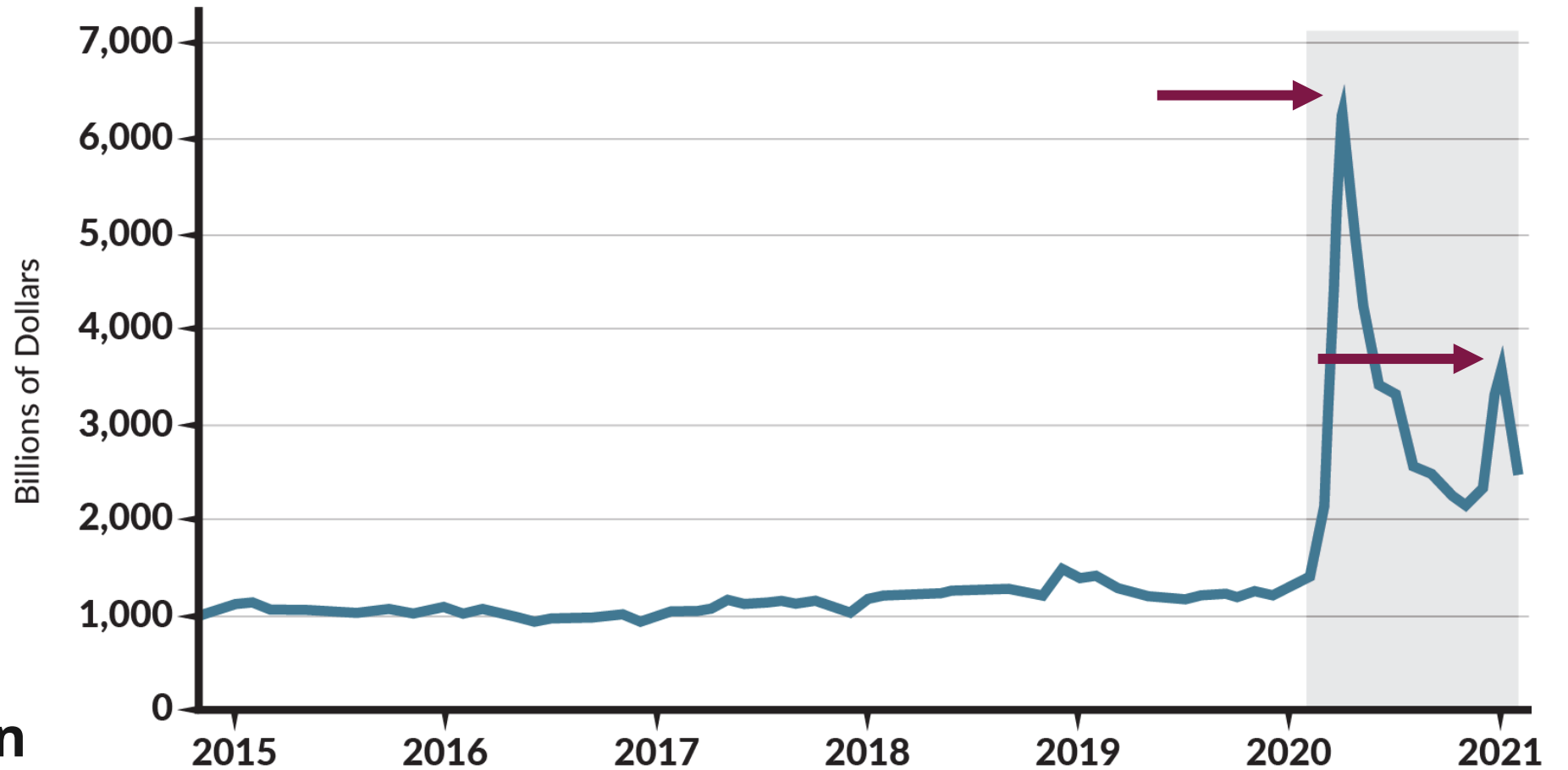
<b>Policy, in order of ease of passage</b>	<b>Low</b>	<b>High</b>
Child tax credit thru 2025	-\$420	-\$420
Other tax relief	-\$150	-\$250
Top individual rate	\$120	\$120
Estate tax	\$100	\$250
Itemization	-\$20	\$350
Raises cap. gains / div. rate	\$150	\$250
Pass through deduction	\$150	\$150
Step up / carryover basis	\$0	\$110
Intl. minimum taxes	\$300	\$400
Corporate rate (w/ phase in)	\$350	\$650
<b>NET TAX HIKE</b>	<b>\$580</b>	<b>\$1,610</b>
<b>GROSS TAX HIKE</b>	<b>\$1,150</b>	<b>\$2,280</b>

Source: CBO, AEI, Tax Policy Center, and Cornerstone Macro



# Personal Savings

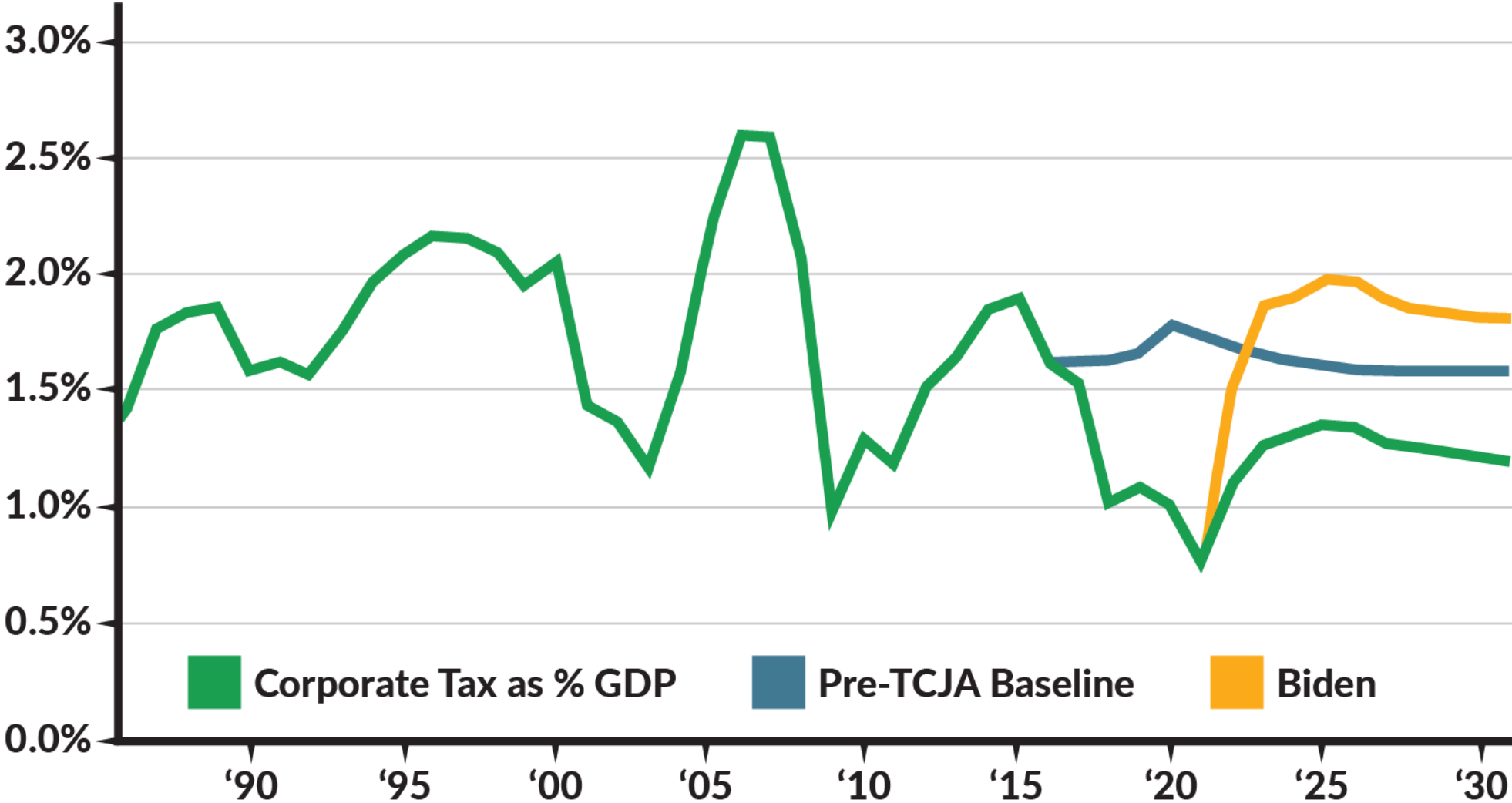
- Long-term average near \$1 trillion
- 2020 stimulus rose above \$6 trillion
- Still double LTA
- **Fuel for consumption**



Source: Federal Reserve St. Louis, U.S. Bureau of Economic Analysis



# 1% Here or There

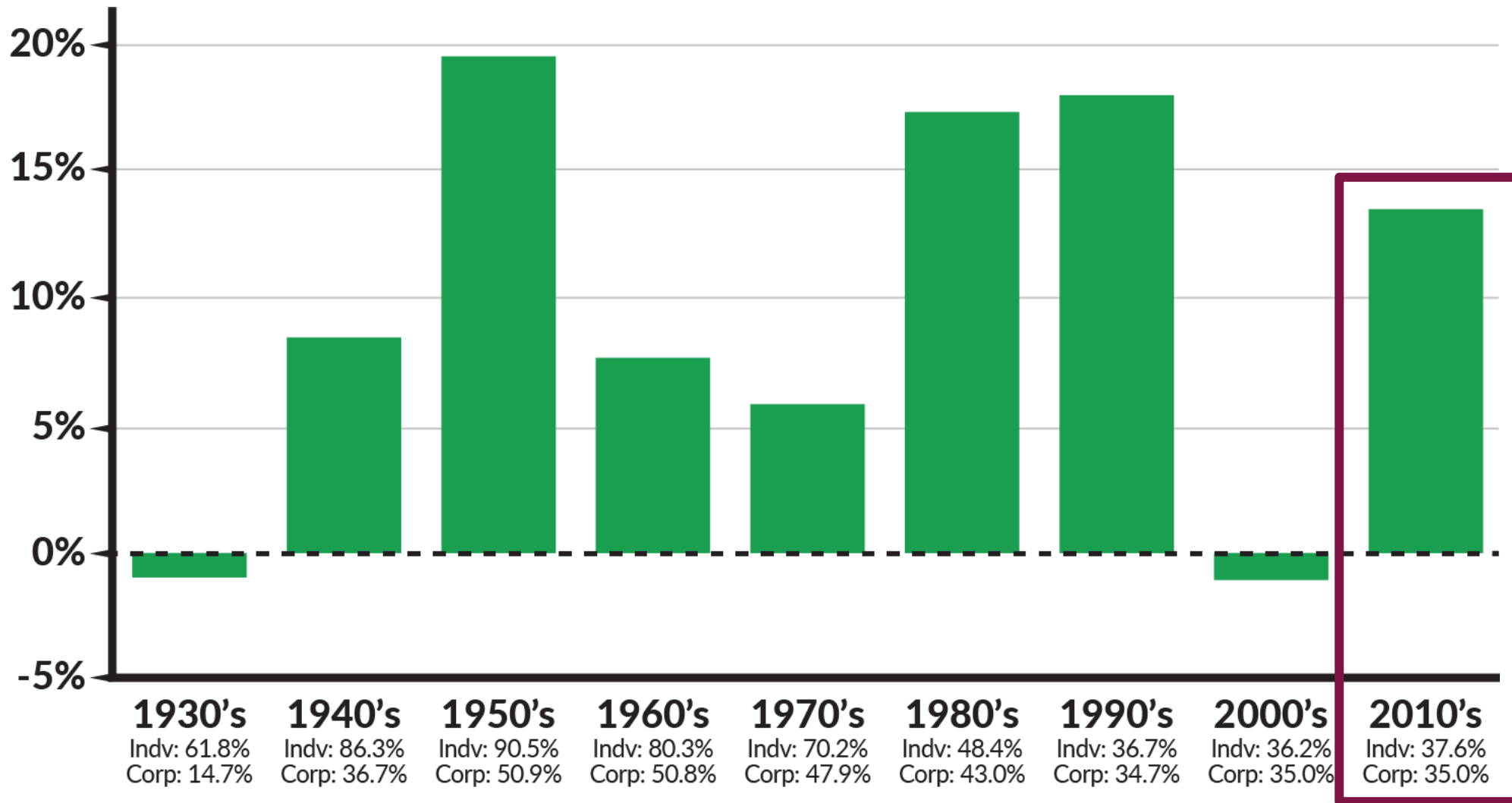


Source: Cornerstone Macro





# Taxes and Stock Returns

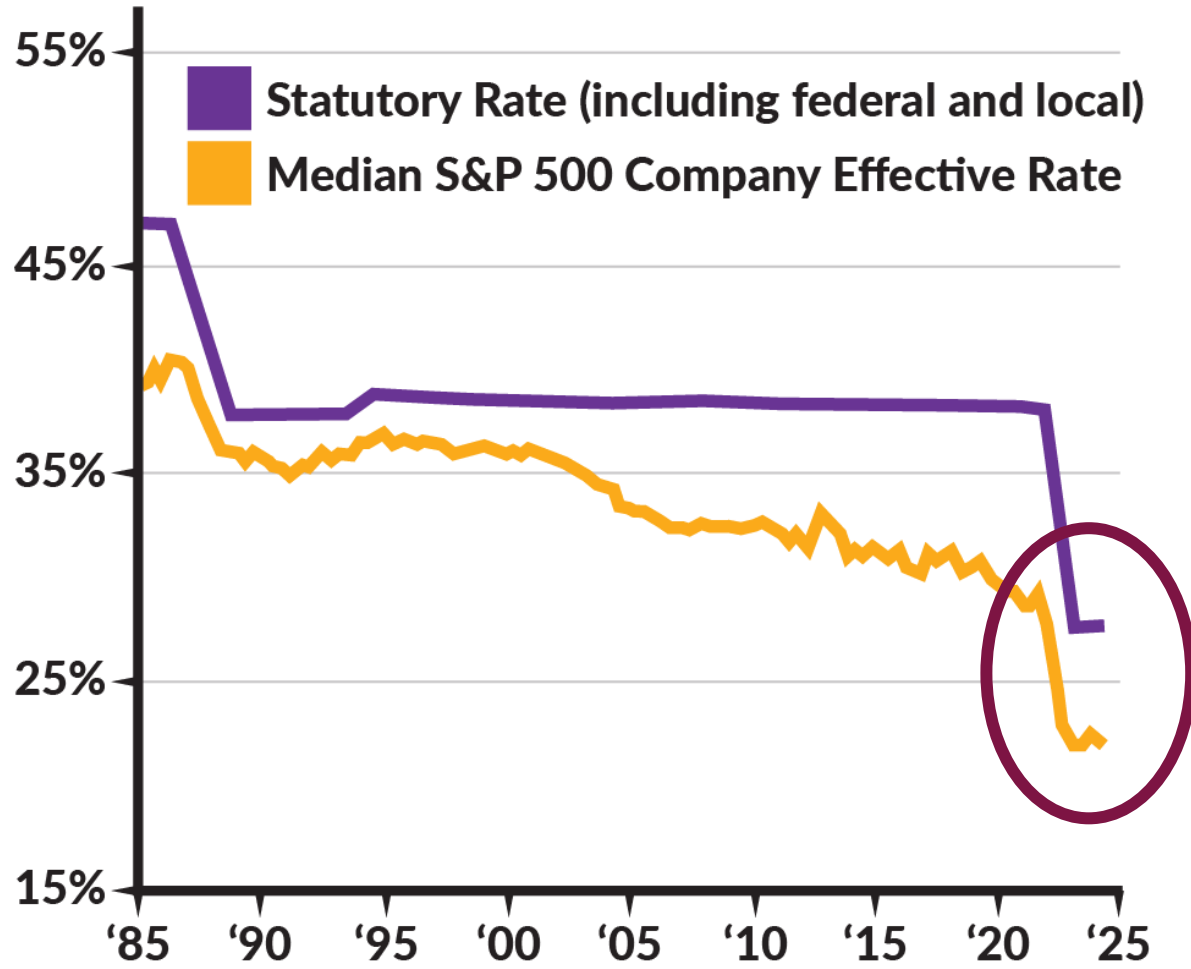


Source: Invesco, U.S. Department of Treasury, Shiller, Yale database 12.31.20

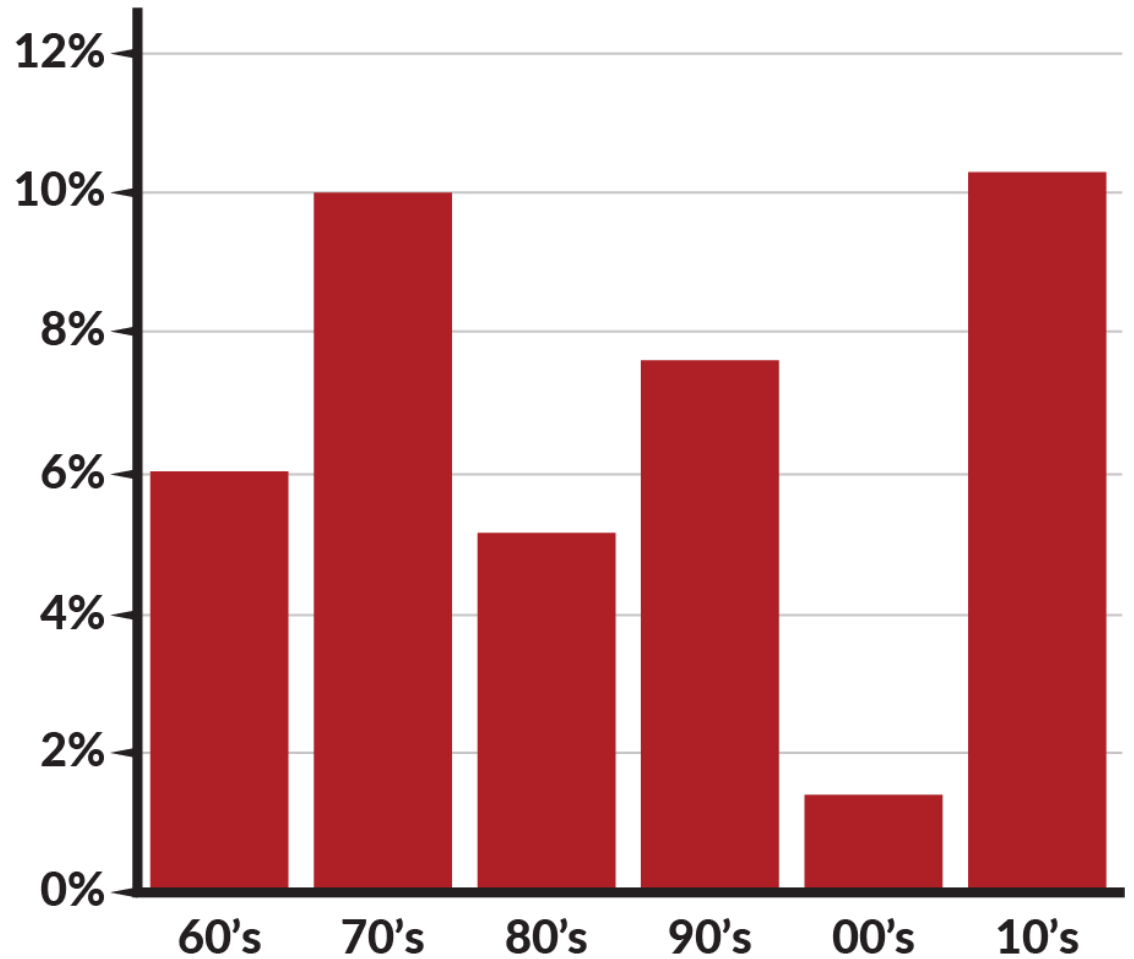


# Corporate Tax Rate and Earnings

## Corporate Tax Rate



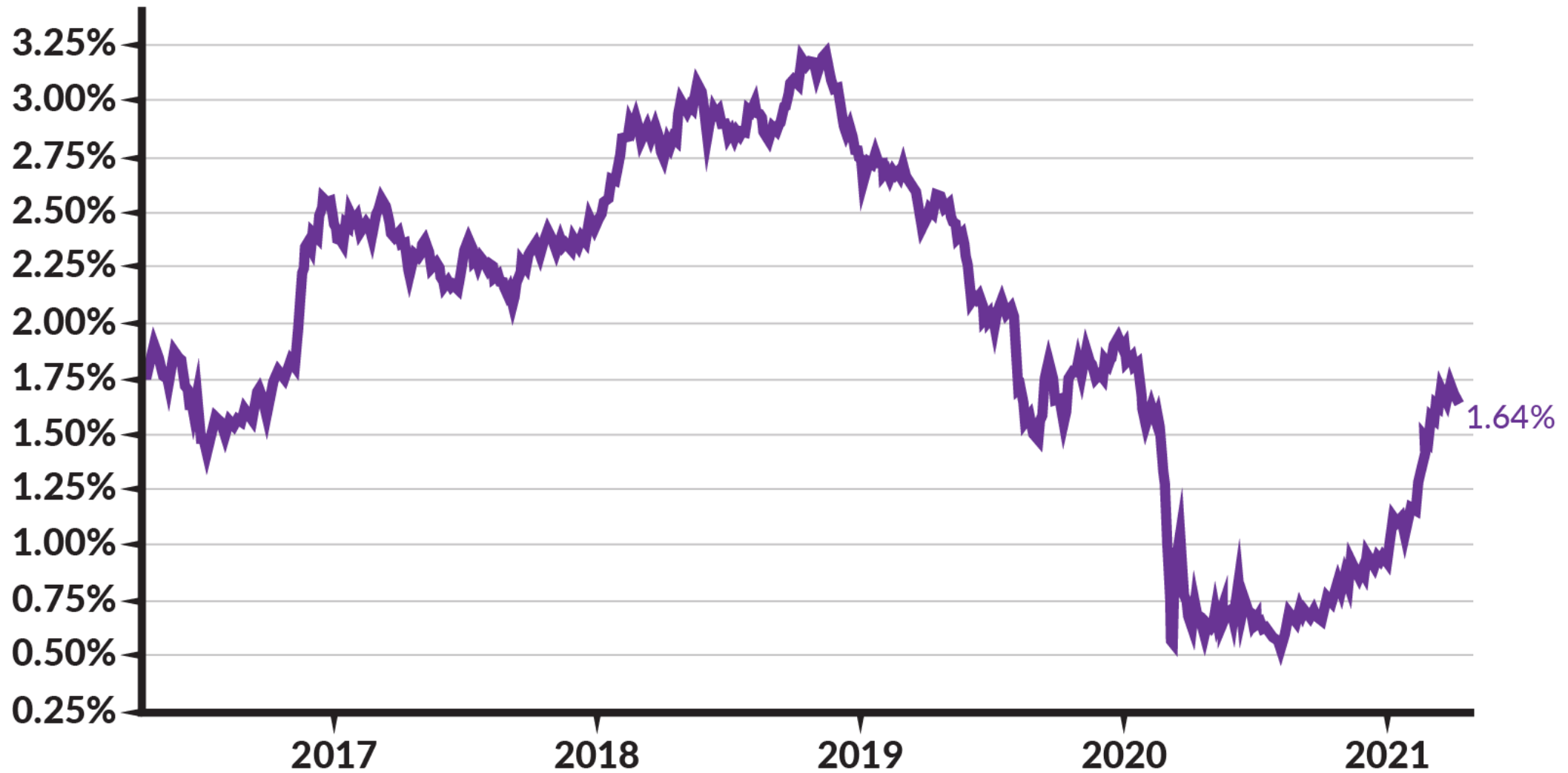
## Earnings Growth in Different Tax Regimes



Source: Invesco, OECD, Dept. of Treasury, Bloomberg 12.31.20



# What About Bond Yields



Source: Trading Economics, U.S. Treasury



# Conclusions

- A large plan that alters policy course for spending and taxes is likely
- Spending policies cover many things beyond infrastructure
- Stocks may perform well despite the rise in corporate tax rate
- Increased deficit spending is likely to put upward pressure on interest rates
- Portfolios should seek exposure to recovery and use cashflow to reinvest at now higher interest rates



# Q & A

*Thank you for attending!*

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