



## BEWARE THE RIPTIDE



*“Princes and governments are far more dangerous than other elements of society.”*

*Niccolo Machiavelli*

One of nature's deadliest deceptions, a rip tide is a narrow but powerful underwater current that lurks close to shore often under the illusion of a gentle surf. Even the most experienced swimmer can be swept out to sea fighting a current so swift it can reach speeds of up to eight feet per second.

A rip tide is the perfect metaphor for today's tax environment. After a year of political and social crisis, many of us are reveling in sweet signs of renewal: a reviving economy, a receding pandemic, a joyful reunion with family. Few seem to be aware of the powerful revenue-raising undercurrents developing in our state capitols and in Washington.

Everyone has been expecting tax increases for some time but the number and scope of the proposals under discussion are unprecedented. The first and most likely to pass is a proposal to double the long-term capital gains tax to 40% or more for the wealthiest Americans.

More threats loom. The federal estate tax exemption, currently a generous \$11.7 million, may be slashed as low as \$3.5 million. In Washington, there's talk of raising estate tax rates and lowering the maximum lifetime gift exemption. Trusts that have been a safe haven for decades are now under scrutiny by tax-hungry lawmakers. Even the modest step-up in cost basis for heirs may be in jeopardy.

Washington's enthusiasm for revenue-raising measures has emboldened state lawmakers to get in on the action. There's glee these days in Springfield. For decades, Illinois has sharpened its skills at squeezing revenue from its residents like a python. Illinois ranks in the top five among states for overall tax burden, that is, its property, income, sales and excise taxes.

Illinois' lawmakers seem undeterred by that ignominious distinction. One recent proposal would raise the state estate tax by 30% or more. Illinois just might rocket to the most taxing state in the U.S.

No one can predict how many of these proposals might become law, or when they might take effect. What we do know for sure, however, is that there's a high likelihood of a torrent of new taxes.

To survive a rip tide, swimmers are advised not to fight the current. That's a good strategy for today's rough waters. Wise investors will monitor the tax basis of their assets, their irrevocable trusts, their balance sheets, and their philanthropy. They might even paddle into a state with low or no income and estate taxes.

Most importantly, they'll stay in close touch with their financial lifeguards – their lawyers, their wealth advisors and their CPAs – so they will be well aware of the dangers of a rip tide.

