PRESIDENTIAL ELECTION & TAX PLANNING

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How will the outcome of the presidential election affect you financially? Barack Obama and John McCain propose widely differing tax policy positions. When clients ask us, "What tax moves should I make in anticipation of the election," our general answer is to wait to see who wins if possible. Consider making financial decisions in November or December of this year. If you cannot wait (e.g. have to make deferral elections for retirement or deferred compensation elections now) then you may want to investigate the option of accelerating income or capital gains into 2008 to take advantage of our current tax rates which are at an historical low. Other factors to consider are your current and future income levels.

TAX POLICY: OBAMA VERSUS MCCAIN

The initial tax policy stances of Barack Obama and John McCain have clear differences. Be aware though that policy positions can change as the campaign gets closer to November. The discussion below is based on their current positions as of June 25, 2008.

Obama will keep (or reduce per his most recent statements) the current income tax rates for families earning less than $250,000 per year and raise the top income tax rates back to 39.6% as they were during the Clinton administration. The current top income tax rate is 35%. Notice that he uses the word "families" and not "individual." Some have expressed concern that this difference may increase tax rates for some middle class taxpayer households. It is hard to tell.

For families earning over $250,000 per year Obama also wants to raise the capital gains and investment tax rates to somewhere between 20-28% (they are currently 15%). He has also suggested making family income over $250,000 subject to Social Security taxes while keeping the current individual ceiling at $102,000. A recent article noted that his Social Security proposal might include investment income, but he has not yet made that decision. If higher income is subject to the Social Security tax, then the highest tax bracket will increase to 45.8% (39.6% + 6.2%) before state income taxes.

For families earning less than $250,000, Obama is proposing a refundable tax credit on mortgage interest up to $800 for non-itemizers. He wants to increase the Hope education credit from $1,800 to $4,000 per student. He also proposes to eliminate income taxes for all seniors earning less than $50,000 per year and expand the earned income and child and dependent care credits.

John McCain, on the other hand, has pledged to make the current Bush tax rates permanent before they expire in 2010. While this would cap the income tax rate at 35% and capital gains and investment income at 15%, some commentators believe McCain may have to raise the 15% capital gains rate sometime in the future. Some economists predict that capital gains and investment income will be taxed at a higher rate no matter who wins in November, but it may occur later under McCain than under Obama. In addition, he wants to increase the dependent exemption amount by 70%.

Both political camps want to fix the Alternative Minimum Tax (AMT) which is being temporarily "patched" each year to prevent it from subjecting millions of taxpayers to an additional tax. Obama wants to extend the 2007 patch and index it in the future. McCain wants to extend the 2007 patch, index it and increase the exemption index by 5% after 2013.

The two candidates also differ markedly on the estate tax policies. Obama would grant a $3.5 million exemption per person and keep the estate tax rate at 45% (currently the exemption is $2 million going to $3.5 temporarily through 2009, no estate tax in 2010 and then back to a $1 million exemption in 2011). McCain would increase the exemption to $5 million and reduce the tax rate to 15%.

TAX STRATEGY FOR 2008

Waiting until the election results in November to finalize your tax strategy will obviously give you a better picture for the future. Any new legislative tax changes could be passed as early as 2009 and could be effective as of the beginning of the year. Some commentators believe a change in the investment income and capital gains rates might be effective only from the date of legislation which may mean a two tiered structure for 2009. However, we are suggesting to clients that they look at capital gain assets now and at least identify what assets they would prefer to sell in 2008 if rates went up in 2009.

If you can't wait to make income and investment decisions until after the election then remember that 2008 offers some of the lowest tax rates that we have seen in recent history. No matter who is elected president, it is more likely that rates will go up than down. Thus, think twice about deferring income to later years if your household income is likely to be over $250,000. Think twice about contributing to a traditional IRA or 401(k) if your retirement income is likely to be substantial. Instead, consider a Roth IRA or Roth 401(k). Another strategy would be to consider municipal bonds for new fixed rate investments in taxable accounts to hedge against rising rates on investment income. But make sure the municipal bonds are not subject to alternative minimum tax (AMT) or the benefit may be reduced significantly.

Estate tax planning is also difficult now based on the two candidate's positions. There seems to be bipartisan support in Congress to raise the estate tax exemption beyond the $1 million exemption that is currently scheduled to take effect in 2011. Some commentators believe the new estate tax exemption will be between $3.5-$5 million and the estate tax rates will not change. We generally recommend that our clients use formulary clauses in their estate plan to allow their documents to adjust to the changing exemption amounts. Check with your attorney and your financial advisor for recommendations that fit your specific situation.

DON'T LET THE TAIL WAG THE DOG

While taxes are a big element of any investment or financial decision, one should remain mindful it is still important to keep a sound underlying strategy and not let "the tax tail wag the economic dog". Anticipating a potential change in tax policy is desirable, but stick to the fundamentals and make tax adjustments only when appropriate. As always, we advise you contact a financial professional before making any major financial decisions.

VANTAGE NEWS

We thought you might like to hear about some things that have been going on behind the scenes at Vantage.

First, we are most excited about the addition of Abbie Olson. No, she is not a new employee, but the baby girl of Elizabeth (Beth) and Marc Olson. While Abbie is taking up quite a bit of their time and sleep, the new parents do feel blessed.

Beth's presence is missed here at Vantage, but we're thinking Abbie might make a great financial planner some day. Her mom says she does a great job of expressing needs.

Speaking of new employees, we have two new members on the Vantage team (both named Dan). Dan Zalipski, who came aboard in February, is a graduate from Western Illinois. As an Investment Associate, he will often be the first person you see when you enter our office. He provides administrative support for our investment team and helps us with technology issues. We're especially grateful for his effortless ability to diagnose technology issues and fix them in short order.

An older (hopefully wiser) Dan has rejoined our firm after being gone for over five years. Some of you may remember Dan Kaibel when he led the mortgage division and later served as an Investment Advisor with us. While he was away, he devoted most of his time leading church ministries and working on graduate and post-graduate education from Moody Bible Institute, Regent College and George Fox U.

While he enjoyed his time of learning and participating in Christian ministry, he has come back with a renewed desire to help our clients as part of the Vantage investment team.

On a fun note, feel free to ask Sam Swisher to tell you his "fish story". No, this really happened…at least that's what he tells us. On a fishing trip with his son in Costa Rica he caught a 160lb. tarpon. We weren't sure if we believed him until he showed us the picture…pretty impressive, Sam!