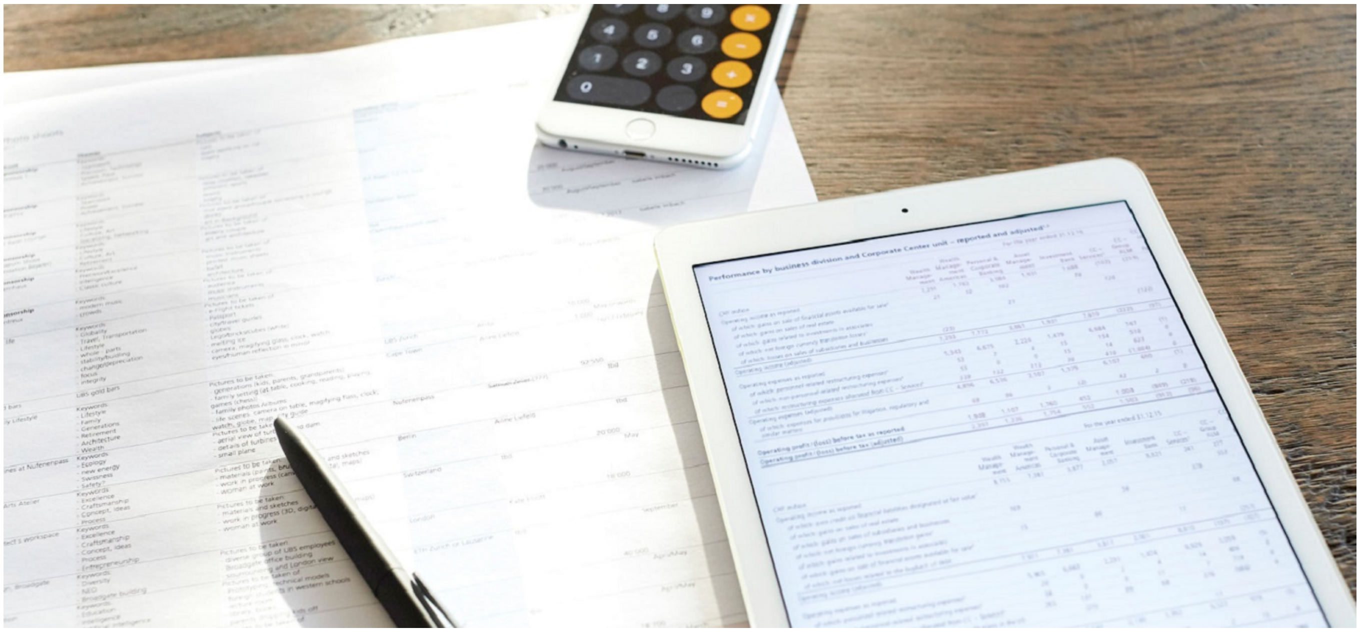

Regardless of whom voters decide to return to office, the accumulated federal deficit is likely to serve as an ever larger constraint on future fiscal policy. (UBS)

How US investors can prepare for potential tax changes

20 March 2024, 5:26 pm CET, written by UBS Editorial Team

Presidential budgets often encounter resistance from members of Congress and typically do not become law. However, they are a useful guide in ascertaining the incumbent president s policy priorities in an election year.

President Biden released his proposed budget for fiscal year 2025 last week. In doing so, he sketched out a fiscal policy that raises taxes on wealthier Americans and corporations. Former President Trump is likely to advocate a contrary set of fiscal policies, including the preservation of tax cuts enacted in 2017.

Regardless of whom voters decide to return to office, the accumulated federal deficit is likely to serve as an ever larger constraint on future fiscal policy. As interest rates have risen, it has become progressively more expensive to finance the federal deficit. According to fiscal data provided by the US Treasury, 16% of total federal spending in the month of February was dedicated to interest payments, thereby crowding out other expenditures. While it’s too early to know when taxes will rise, we suggest four strategies to help manage future tax liabilities, regardless of the outcome of this year’s election.

1. **Enhance flexibility by diversifying tax treatments.** Spreading your wealth across multiple tax treatments (taxable, tax-deferred, or tax-exempt) will give you the option to withdraw from your retirement funds in whichever sequence is more tax-efficient year to year.

2. **Continue deferring capital gains (when it makes sense).** Investors with longer time horizons will often be better off deferring capital gains rather than attempting to lock in a potentially lower tax rate today—especially for investments with higher expected return or smaller increases in the capital gains tax rate.

3. **Accelerate lifetime gifting.** Looming reductions to the lifetime gift and estate tax exemption create a "use-it-or-lose-it" opportunity to potentially save millions in estate taxes. Strategic lifetime gifting is imperative if you want to protect those assets—and their appreciation—from being included in your taxable estate. Completing gifts today will help you utilize the historically high exemption before it's too late.

4. **Don't wait to review your estate plan.** Waiting to take action until the election results are clear can prolong the estate planning process, as trust and estate lawyers will likely be overwhelmed with other families seeking similar planning advice. Proactively engaging with your estate attorney, financial advisor, and accountant will make sure that you have access to these key resources.

For much more, see the full report, **Politics beyond borders** - 20 March, 2024.