ASSET PLANNING, INC.

Quarterly Newsletter

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Potential Tax Changes & Implications *by Sandy*

President Biden has several items in his tax bill that could effect the step up basis in your home.

Currently, if your parent dies and leaves a home to you, you can inherit the home tax free and the basis in the home will "step up". That means that if your parent bought the home for $100,000 and it was worth $800,000 when they died, you have inherited an asset at the value of $800,000 and that is your basis in the home. If you sell the home the next year for $850,000, your gain is only $50,000.

President Biden's plan would treat appreciated assets held at death as sold, thereby triggering income tax, as well as subject these same assets to estate tax. He is proposing taxing the appreciation of property at death as capital gains or ordinary income. If an estate is under a million, he may allow a step-up basis. Currently, taxpayers pay estate tax on the value of their assets over the allowed exemption and the basis of appreciated assets is stepped up to fair market value.

Biden's proposal could subject many to a "death tax" they would not otherwise face. This could happen if a widowed mother dies with a $2.75 million estate that largely consists of the home that she and her husband lived in for the past 40 years. Although her estate would owe no federal estate, it could owe income tax on the deemed sale of a highly appreciated home.

The proposal may not pass as it will be difficult to track an asset's basis and it is unknown how the IRS would enforce this tax. This added tax, if it became ordinary income, could also have a ripple effect by raising your Medicare premiums.

(Continued on Page 2...)

Market Review *by Carol*

The decline in US Covid-19 cases combined with the reopening of the economy led to a surge in economic growth that helped stocks rally to new highs for the first half of 2021.

The Federal Reserve reiterated its support for the economy by maintaining there would be no change in policy or interest rates until 2023. Corporate earnings were very strong as the vast majority of US companies beat earnings estimates which also fueled the stock market upward.

In a reversal from last quarter, growth outperformed value and large cap growth stocks outperformed small cap stocks. This is interesting because small stocks tend to outperform during periods of accelerating growth which signals that the intensity of the economic growth might slow down. This is why we are big believers in diversification as it allows us to catch the changes to the market rotation.

The following are the market returns as of June 30, 2021 YTD. Please note, each client's portfolio is individually constructed and the benchmarks are presented as a comparison tool.

Benchmarks:	YTD - June 2021
60% Equity/40% Fixed	6.75%
50% Equity/50% Fixed	6.14%
US Agg Bond	-2.42%
S&P	14.41%
DOW	12.73%
Nasdaq	12.54%
iShares (EFA)Foreign	8.11%

Benchmarks:	June 2020- June 2021
60% Equity/40% Fixed	20.05%
50% Equity/50% Fixed	16.20%

Chapman Economic Forecast *by Erin*

Our local university, Chapman, is regarded as having one of the most accurate economic forecasts in the nation. I attended their virtual conference two weeks ago. Here is a summary of their outlook on GDP, inflation, interest rates, and house prices.

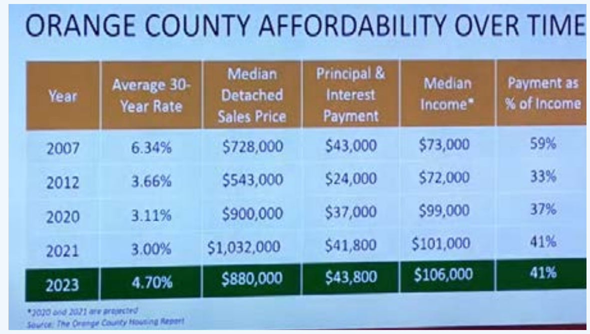
GDP: Chapman sees 2021 as being one of the United State's best years for real GDP growth. They originally forecasted a 5.7% increase but now expect real GDP growth of 6.7% for this year. For perspective, the most recent time period we experienced this level of GDP expansion was in the 1980's.

Inflation: To combat the recession brought on by Covid-19, the government unleashed fiscal stimulus that was even more aggressive than what was done during our last 18 month long recession in 2008. As a result, we experienced a very short recession with only 2 months of negative GDP. A drawback to the government's action is the threat of inflation. Some inflation is good, as this signals the economy is doing well which results in company earnings growth and higher stock prices. Historically, significant inflation has always resulted in the Fed raising interest rates to curb an overheating economy which can adversely affect the market. Many, including the Fed, are forecasting the recent upticks in inflation as "transitory". However, Chapman's conservative estimate is inflation increasing to 3.1% in 2022 and 5.3% in 2023 due to the 25% increase in money supply. *(Continued on Page 2...)*

Chapman Economic Forecast *Continued...*

Interest Rates: Chapman forecasts the 10-year treasury bonds will move from 1.5% to 3.4% by mid- 2023. They also predict 30-year conforming mortgage rates rising from 2.9% to 4.7% during the same time period.

Home Prices: Chapman believes we are in a housing bubble and predicts price declines as interest rates rise. If their 4.7% 30-year mortgage rate prediction by 2023 comes true, they believe the median single family home in Orange County will fall at least 15% . Based on the current median detached home price of $1,032,000 in Orange County, if rates were 4.7%, mortgage payments would consume 23% more of the area's median income. This would make affordability worse than our last housing bubble in 2007.


ORANGE COUNTY AFFORDABILITY OVER TIME

Year	Average 30-Year Rate	Median Detached Sales Price	Principal & Interest Payment	Median Income*	Payment as % of Income
2007	6.34%	$728,000	$43,000	$73,000	59%
2012	3.66%	$543,000	$24,000	$72,000	33%
2020	3.11%	$900,000	$37,000	$99,000	37%
2021	3.00%	$1,032,000	$41,800	$101,000	41%
2023	4.70%	$880,000	$43,800	$106,000	41%

*2020 and 2021 are projected
Source: The Orange County Housing Report

Potential Tax Changes & Implications *Continued...*

The proposal allows a $1 million per person ($2 million per married couple) exclusion from gain recognition on property transferred by gift or held at death. The administration's proposed tax policies clarifies that the $1 million per person exclusion is in addition to exclusions for property transfers of tangible personal property, transfers to a spouse, transfers to charity, capital gain on certain small business stock and the current exclusion of $250,000 per person for capital gain on a personal residence. While the estate planning exemption is now $11.7 million, it is scheduled to decrease back to $5 million in the coming years.

Consumer Credit *by Tiarra*

The growth of consumer credit has been explosive. Individual credit files continue to grow, many times into more than three dozen pages. The Federal Trade Commission conducted a study which found that one in five consumers discovered mistakes on at least one of their credit reports that might impact their credit scores. This is an area of growing concern to consumers and business owners. We can help you:

- Better understand your own credit reports & scores
- Develop strategies to increase credit scores
- Guard against credit & identity theft
- Correct & repair credit reports

For assistance, please call Tiarra at (714) 827-5794 or email her at tiarra@assetplanninginc.com. Tiarra Johnson is the new investment analyst at API. She is certified through The Institute of Consumer Financial Education as a Certified Credit Repair Specialist™. Tiarra has 5+ years of experience working as an advocate for clients with consumer credit issues.

The Results are In! *by Akanksha*

Thank you for voting in the Constant Contact Poll in regards to the event you would like us to host next! The option with the most votes was a how to make your own **summer charcuterie** board at home.

Look out for the event invitation and details soon.

Market Outlook *by Carol*

The world looks a lot more like it did pre-pandemic than it did for most of 2020. While there has been significant progress against Covid-19 here in the US, the global pandemic is not over. Vaccination rates for most countries are below the US vaccination rate. It is interesting to note that the vaccine seems to be working as people that are vaccinated and positive for Covid, tend to fare better and recover without hospitalization than those who are not vaccinated.

The major hurdles facing the continued growth of the economy is inflation and getting more people back to work and off unemployment.

The Fed keeps using the term "transitory inflation" which means that while there will be an increase in inflation it will only be for a short period of time. This is true in certain areas as the demand is higher than the supply (manufacturing products as full-production returns, the demand for travel and oil/gas as people start driving more). The supply will eventually come back and prices should level off. But we are seeing some changes that might stay and be welcome as long as the demand is there. For example, higher wages are being paid in the hospitality industry – restaurants, hotels, and amusement parks are having a tough time finding workers and they are paying them more than before. Right now, companies are able to absorb this and stay profitable so the overall outlook is still positive for the 2nd half of the year.

Beneficiary Check Up *by Melani*

When is the last time you checked the beneficiaries on your accounts? If you have had a big life changing event like getting married or divorced you will want to make sure that your beneficiaries are updated. Many people also have their children listed as beneficiaries, as they grow up their names may have changed for different reasons, you need to update that as well.

You can check your beneficiaries by logging in to your online accounts at TD Ameritrade and Schwab. If you need help checking your beneficiaries or making changes, please contact Melani at (714)-827-5794 or melani@assetplanninginc.com.