

TAXATION



presents

2024 Estate and Gift Tax Conference

Panel 4: From Wall Street Banquet to The Night Of The Poor: Inflation, Poverty, Polarization, and Demographics - The Potential Tax Revolution Every Estate Planner, Trustee and Family Office Must Prepare For

Thursday, March 21, 2024

12:00pm - 12:40pm

Speakers: Brendan MacMilan

Conference Reference Materials

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From Wall Street Banquet to Night of the Poor: A Potential Tax Revolution is Nearly Upon Us!



March 2024

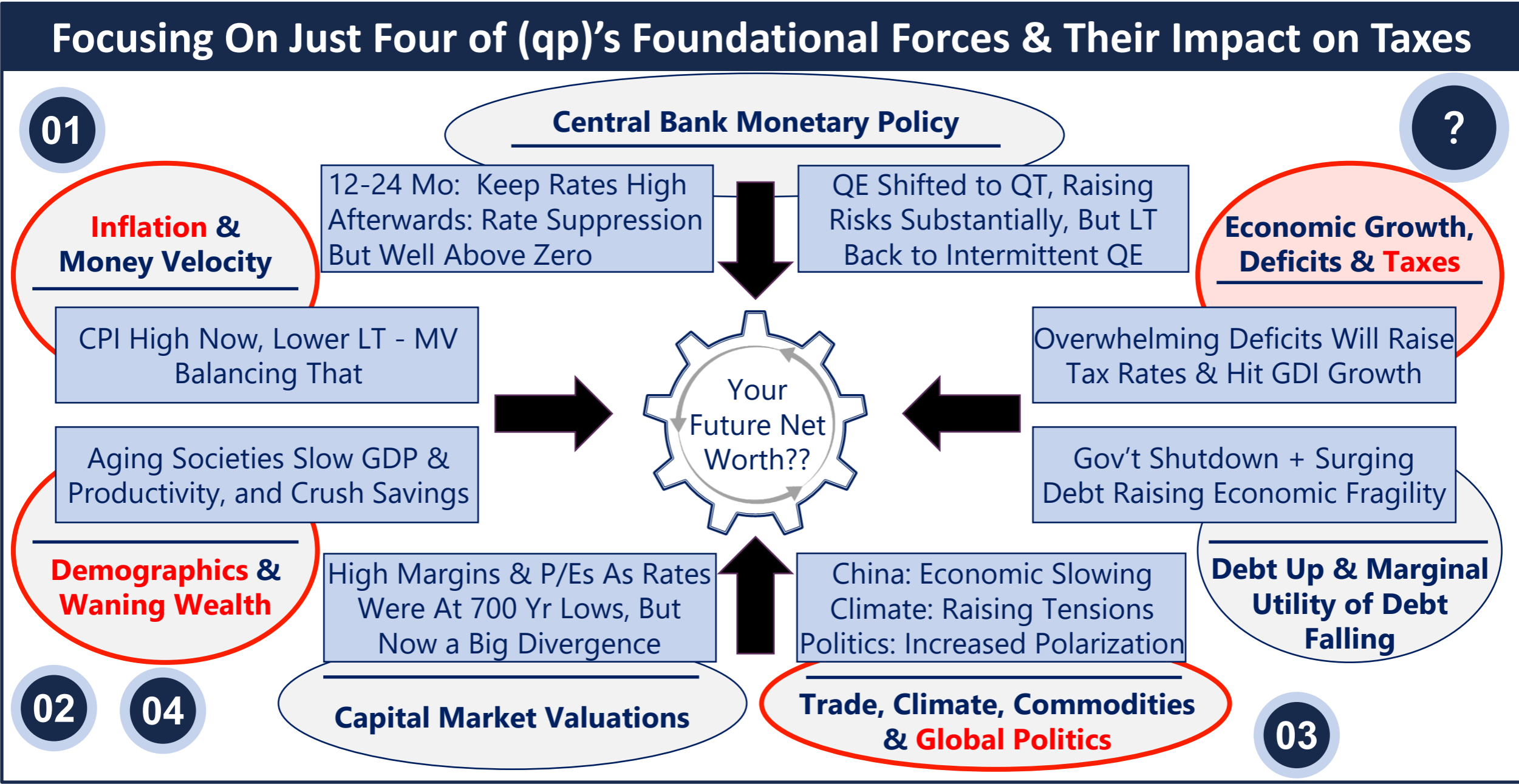


Executive Summary: Assessment, Not Advocacy



How Inflation, Poverty, Polarization, & Demographics will Remodel The United States

As single-family office managers & investors, (qp) Global has a long-term time view of the markets and economy. We spend a significant amount of time researching & analyzing what we believe will happen in the future, as often we make decisions that will take 10+ years to realize their intended outcomes.

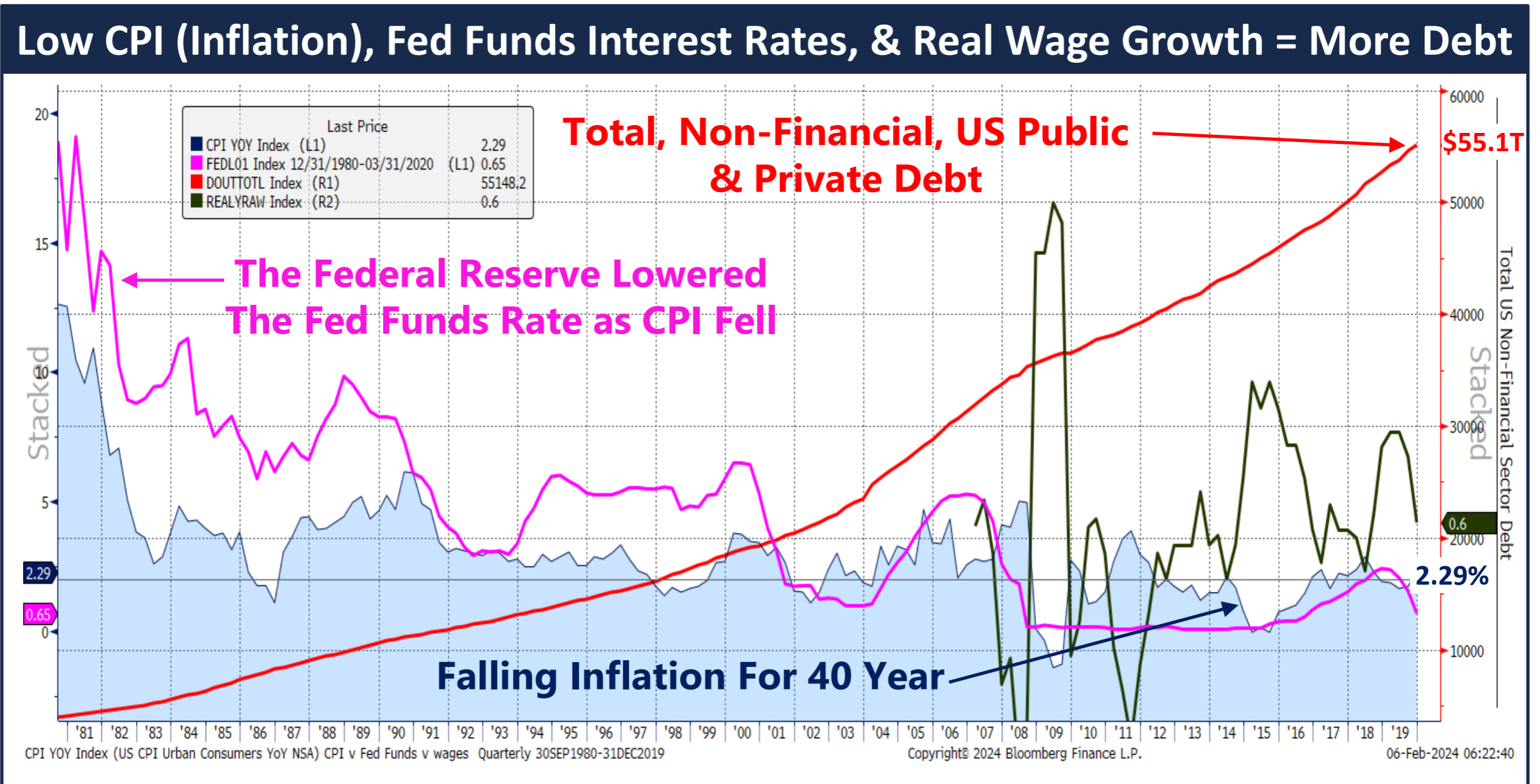




Inflation: A Problem of Both Past & Present

Pre-Covid Inflation Seemed To Be Benign For All Americans, Enabling Debt Accumulation

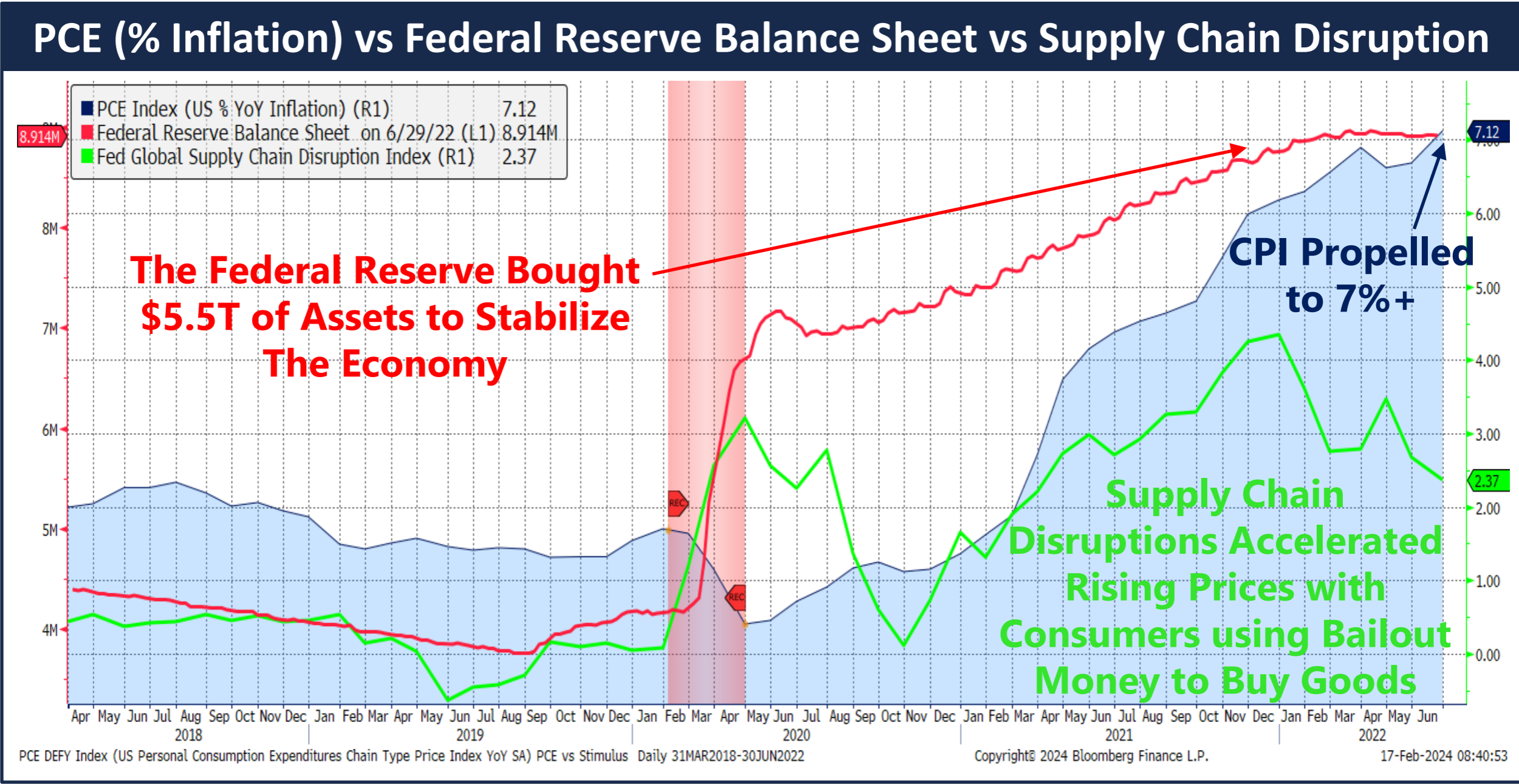
The Bureau of Labor Statistics (or "BLS"), which conducts the surveys and tabulates the Consumer Price Index ("CPI"), had shown a steady decline in inflation, with very little volatility year to year, which had enabled the Federal Reserve to methodically bring down interest rates and show strong real wage growth.





The Combo of Massive Covid Bailout Money & Supply Chain Disruptions, Changed That

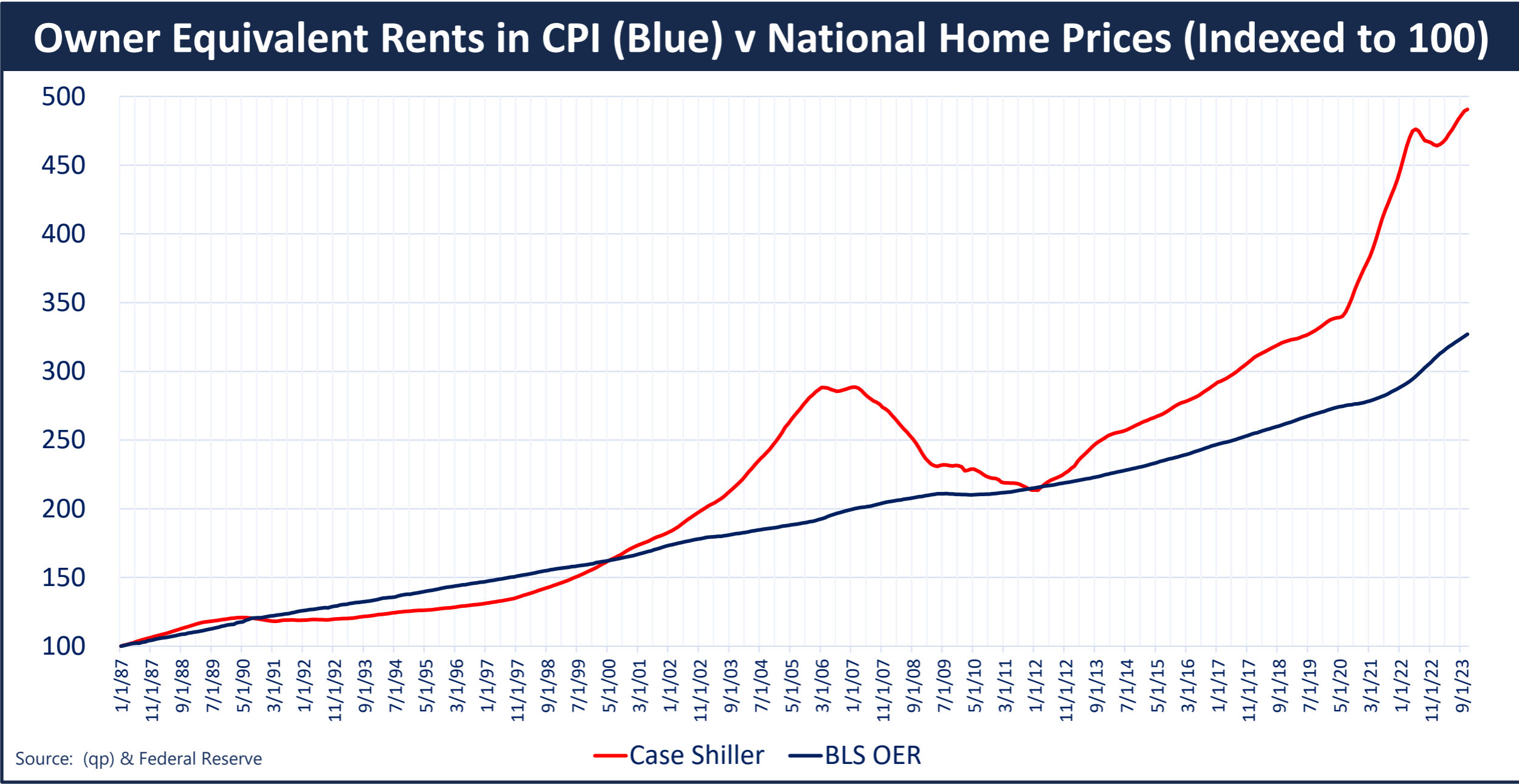
With the world shut down by end of March 2020, US policy makers reacted swiftly, from large fiscal spending to the Federal Reserve buying over \$5.5 Trillion of securities, which, along with unprecedented supply chain disruptions, caused inflation to spike to its highest level in over 4 decades.





However, the Real Story is How the BLS Systematically Under Reports the True Inflation

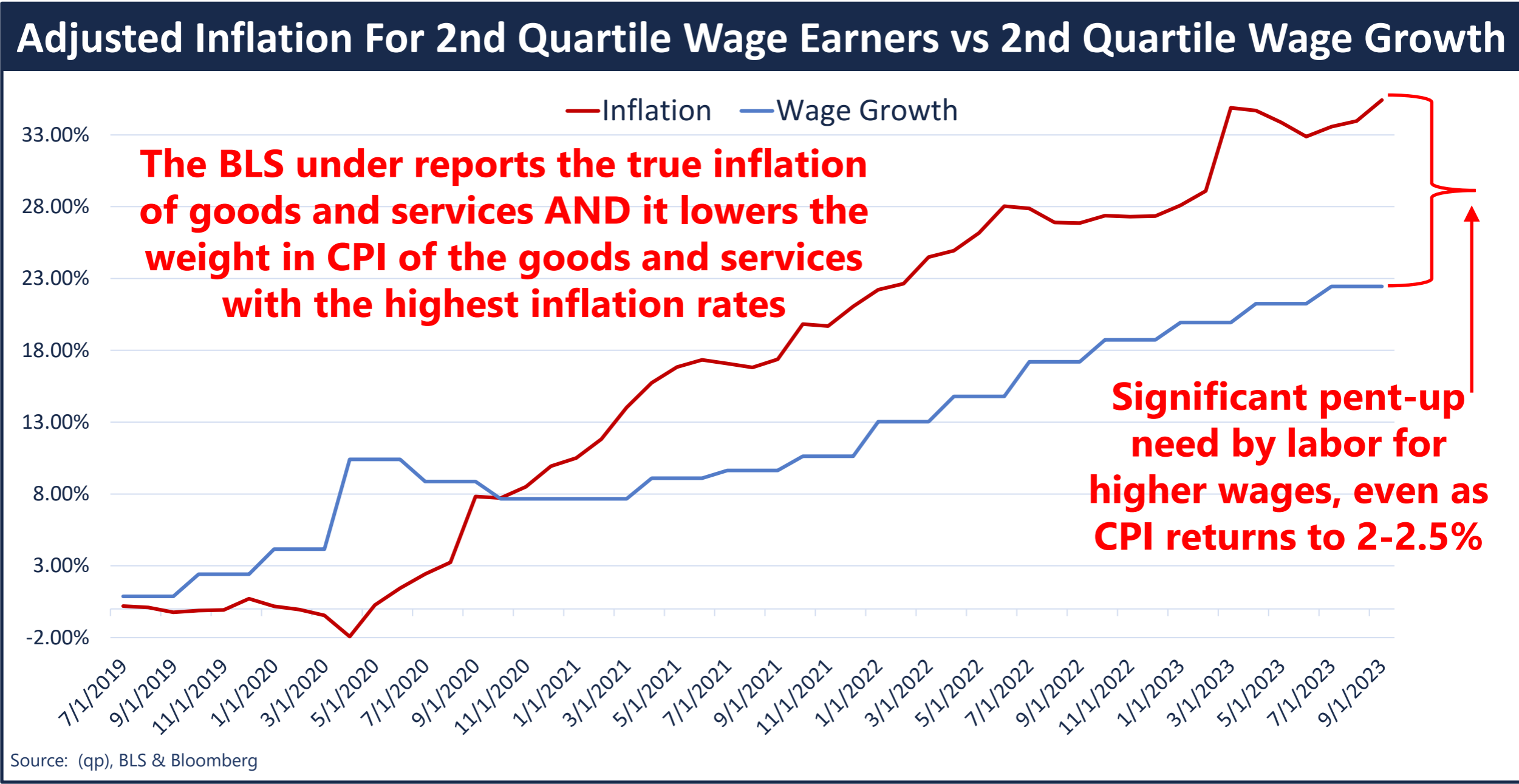
The issue is that the BLS systematically under reports CPI for most Americans, with highly inaccurate and convoluted surveys and methodologies, that simply don't represent what the true price increase in goods and services has been over the last twenty years – then add in this recent inflation surge and....





The Massive Spike In Adjusted Inflation Was Even Worse For Lower Income Families

Everyone has a different basket of goods & services they buy, but for wage earners in the lowest & second lowest quartiles, the share of wages that go to basic necessities, such as food, lodging, medicine, and transportation, is vastly higher than in the BLS CPI basket - these items had much higher inflation.



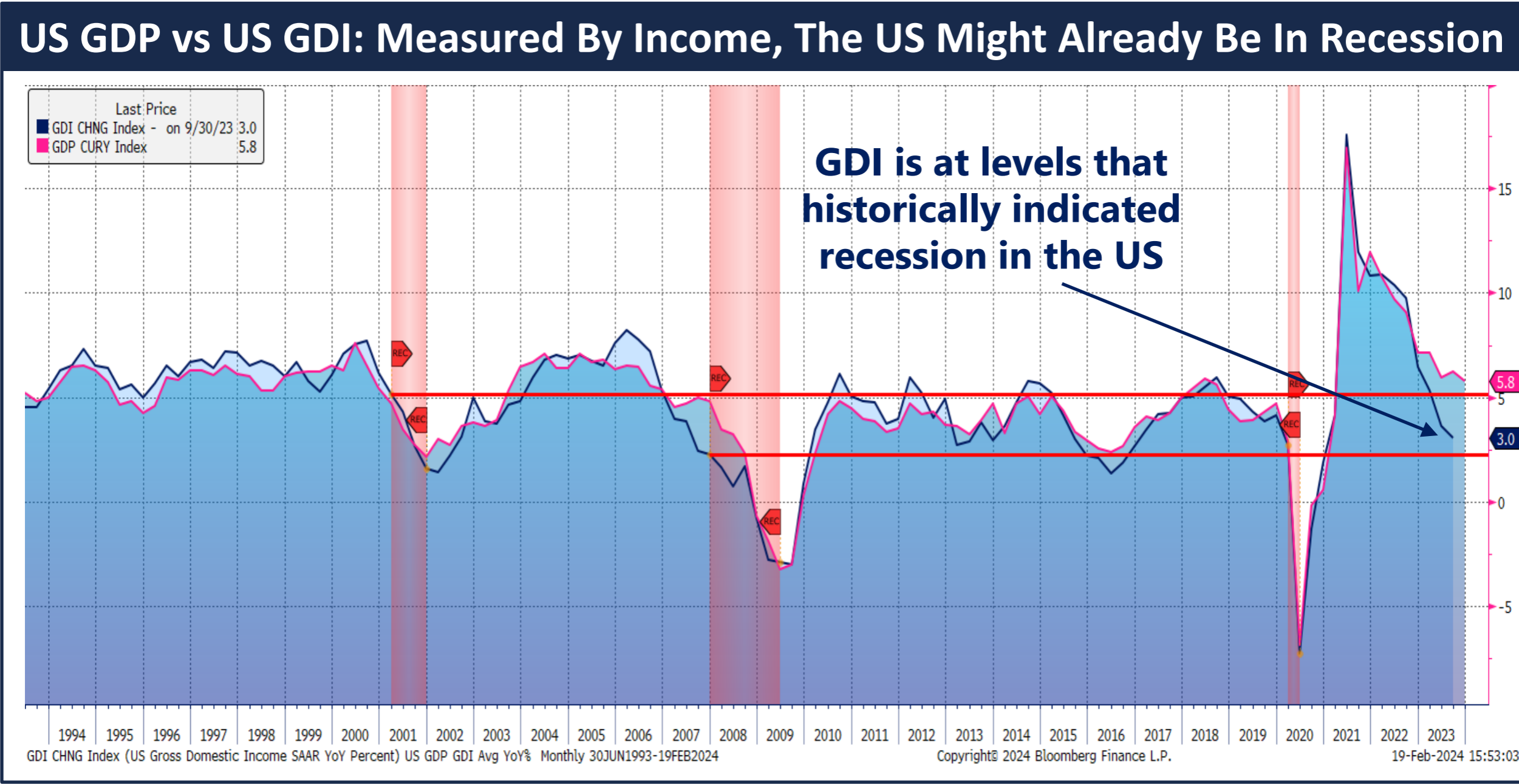


Poverty: The American Dream Is Killing Me



The Economic Narrative is that the US Economy & Consumers are Very Strong

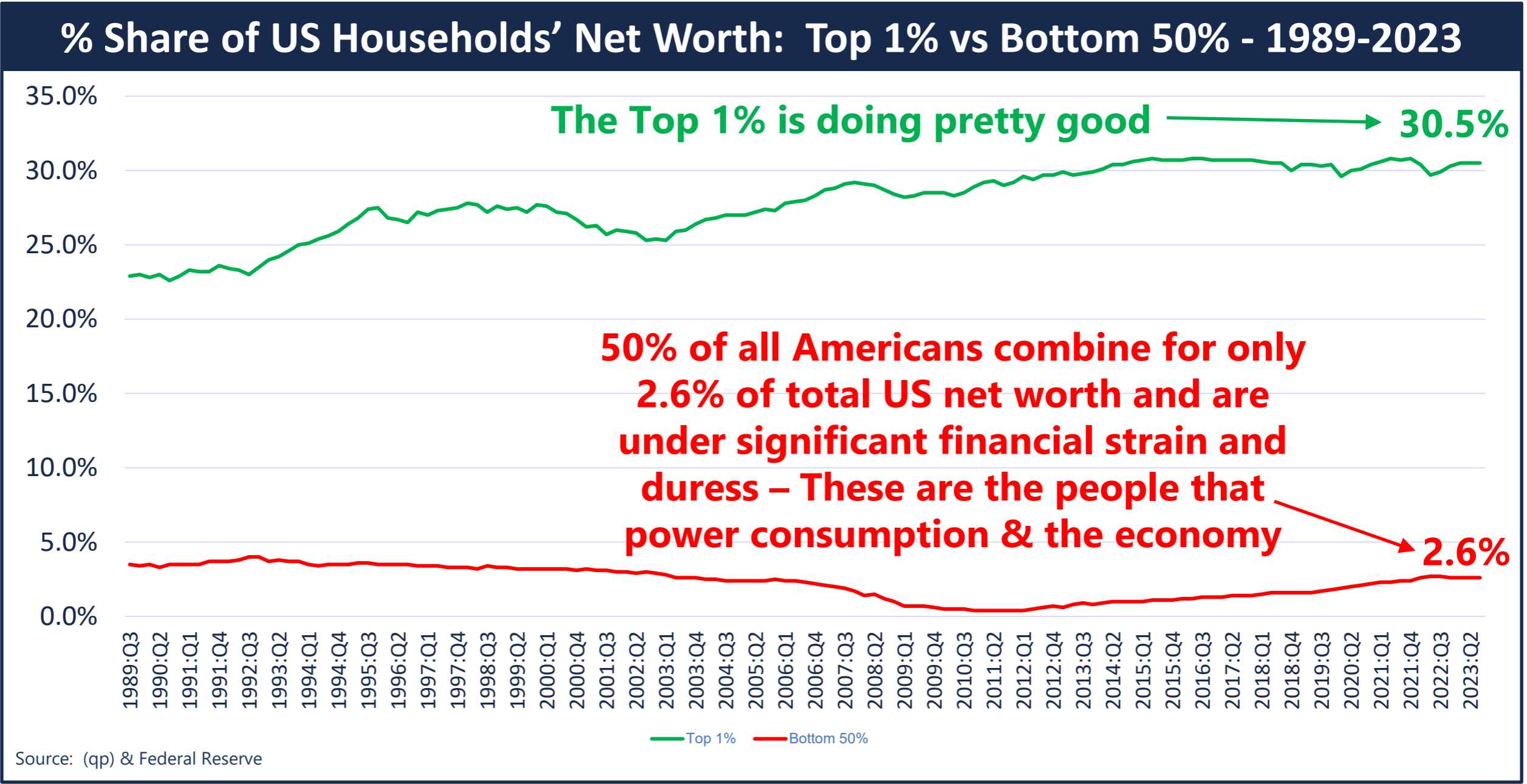
Most journalists & economic commentators like to talk about the economy's strength in terms of GDP, but, Gross Domestic Income ("GDI") is a more accurate measure of the health of the consumer, as it's what the consumer is getting paid and what firms are making. By that measure, the US is a lot weaker.





But the Top 1% of All Americans are Overshadowing the Struggles of the Bottom 50%

While nominal US GDP growth printed an impressive 6.3% YoY, that economic strength has not trickled down to the bottom 50% of US households based on net worth – in fact, the Top 1% of Americans continue to increase their share of the wealth pie, as the median American’s wealth stagnates.





Over Levered: Consumers Have Very Little Additional Credit To Tap In Coming Months

US consumers now have over \$1 trillion of credit card debt alone. While the unprecedented stimulus checks in covid had masked a growing problem of consumers being tapped out on credit, a few short years later and now families making under \$75k have almost no credit left to borrow. Then what?

Average Utilization Rate Amount Accounts 30+ Days Past Due by Income: '13-23

Even households making >\$100k/yr are borrowing at record amounts... scary



Source: (qp) & Federal Reserve





Worse, High Inflation has Forced US Consumers to Save Less, But it Helped GDP in '23

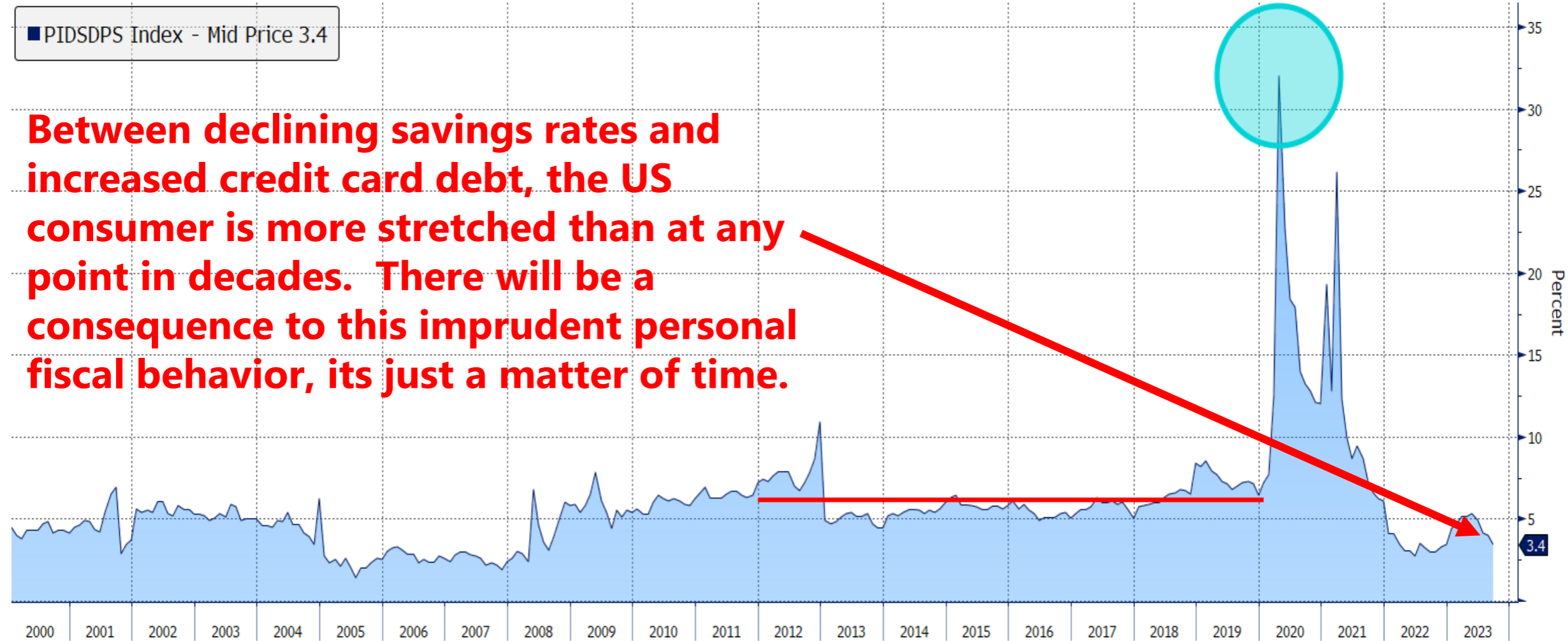
Because basic necessities cost a lot more, upwards of 5-10% YoY, consumers had to save less and spend more, to just keep their kids fed, clothed, & sheltered. However, this savings decline is not sustainable, as going to 1% from today's 3.4%, leads to a big retirement problem or spending implosion.

Going From a 3.5% Savings Rate, to a 1% Rate, is Just Not Sustainable

If a 5.5% Fed Funds rate is not enough to induce savings, it is a very bad sign

■ PIDS DPS Index - Mid Price 3.4

Between declining savings rates and increased credit card debt, the US consumer is more stretched than at any point in decades. There will be a consequence to this imprudent personal fiscal behavior, its just a matter of time.



PIDS DPS Index (US Personal Saving as a % of Disposable Personal Income) US SavingsRate %DispInc Monthly 31JAN2000-29NOV2023 Copyright© 2023 Bloomberg Finance L.P. 29-Nov-2023 13:02:58

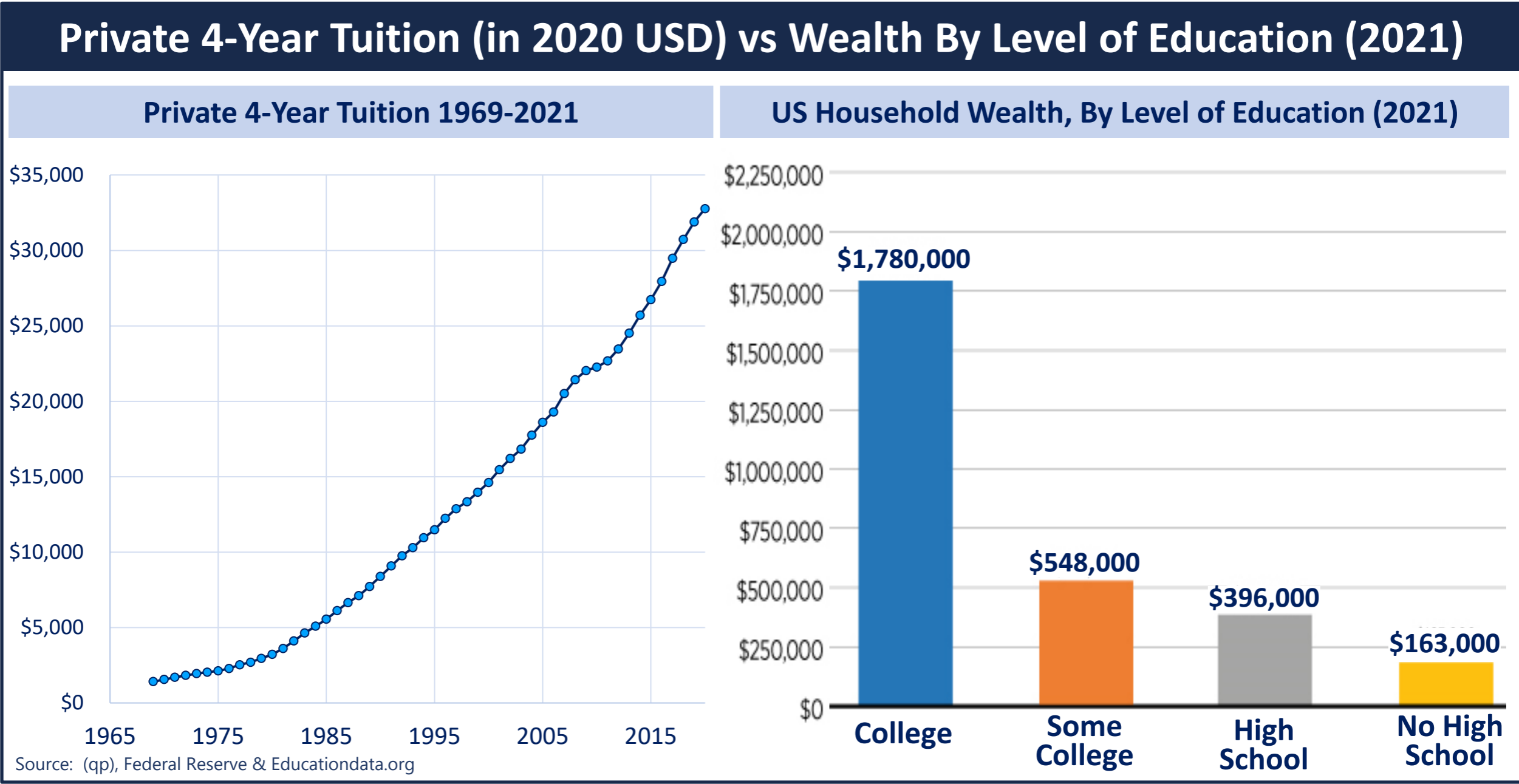
Source: (qp) & Bloomberg





Longer Term it's Even More Challenging, the Sizeable Wealth Gap by Level of Education

A big issue is that the wealth disparity now starts at an early age. While Boomers basically went to college for no money, kids today need to spend over \$150k on tuition, room, and board to get a 4-year degree. College degree holders earn far more, more consistently over their lives, but now that entry ticket is costly.

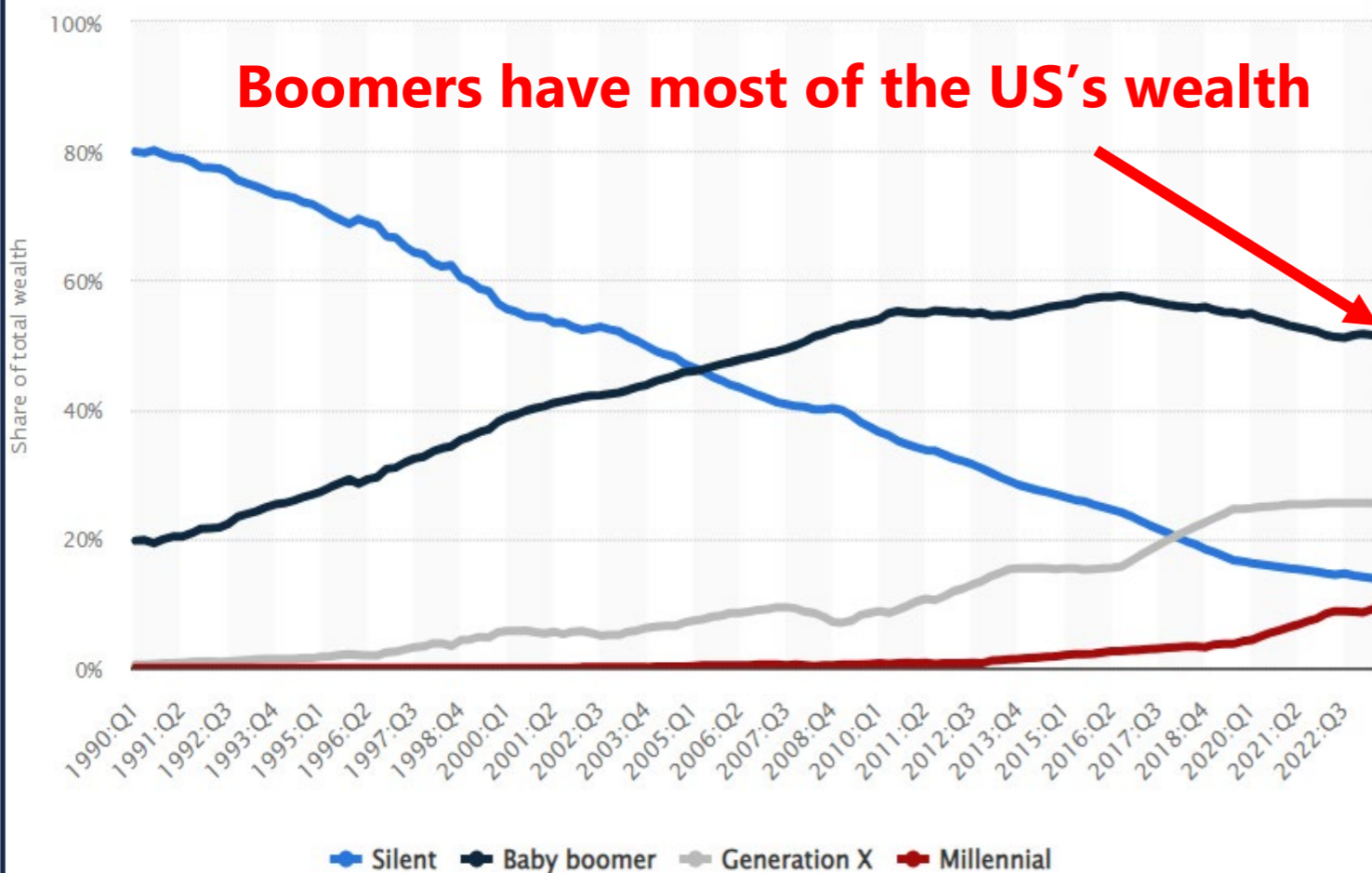


Poverty Though Is Skewed To Younger Generations

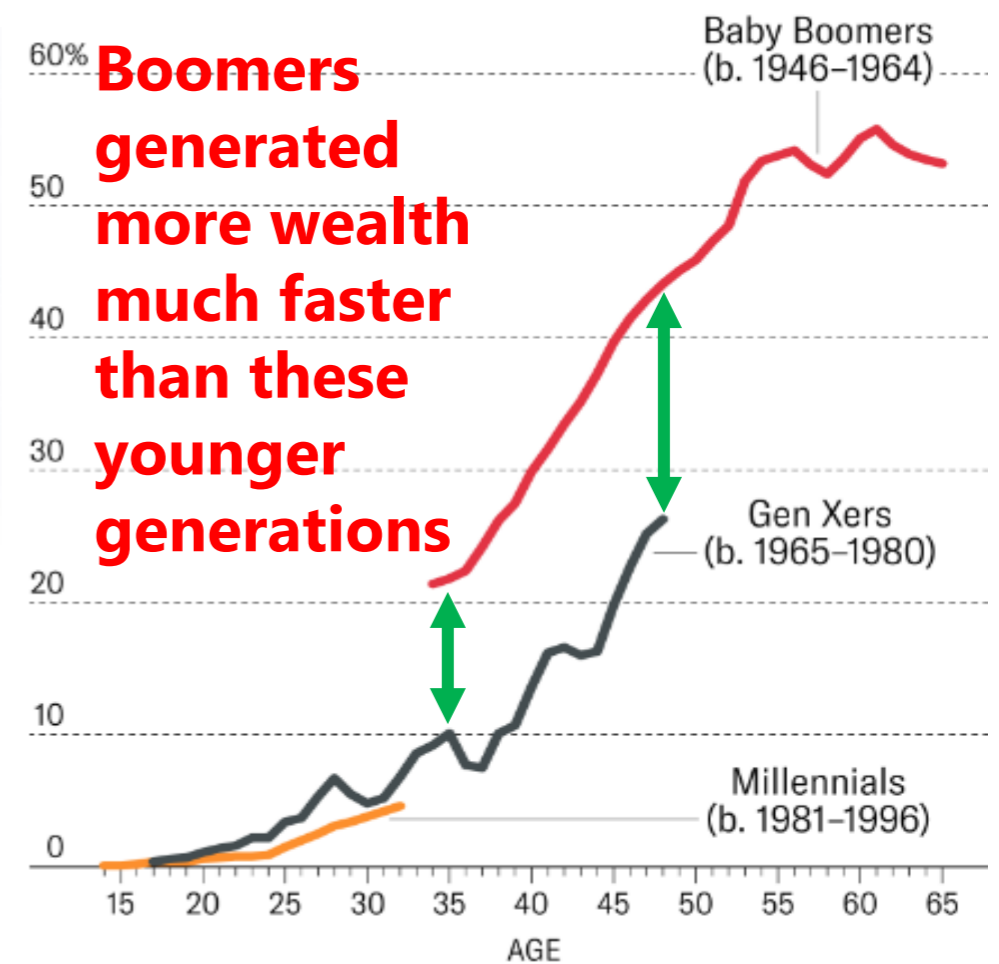
Not only are the younger generations faced with unprecedented debt levels to just graduate college, but their path to creating wealth has stagnated with all time highs in both equities and home price. Gen Xers were well behind Boomers in their growth in wealth, Millennials are worse. Forget Gen Zs.

Millennials Are Well Behind Boomers on Creating Wealth & Gen Z is Nowhere

% US Wealth Distribution 1990-2023, by Generation



Household Wealth by Age of Generation



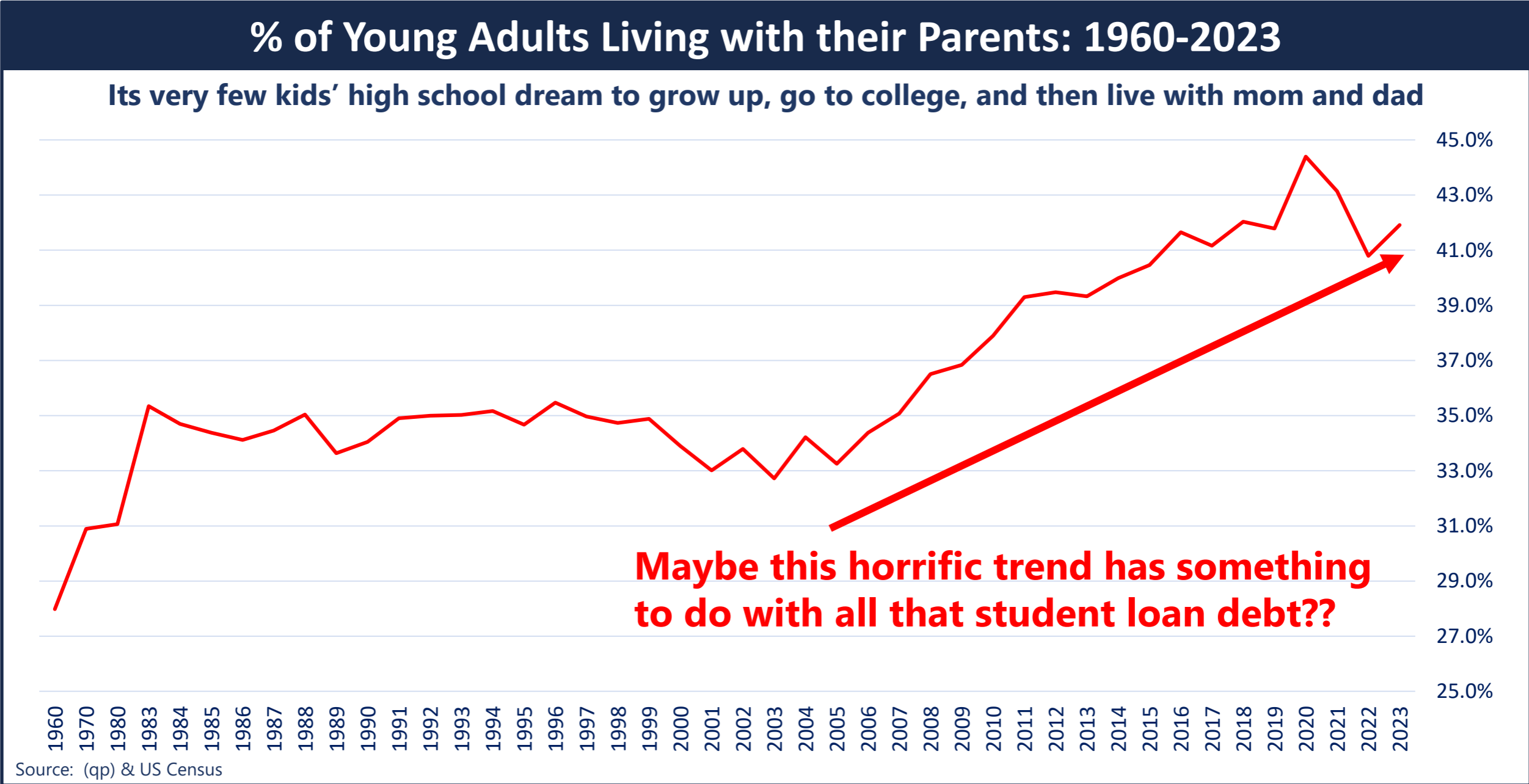
Source: (qp) & Federal Reserve





Young US Adults Are Having Real And Negative Impacts Due To This Relative Poverty

How bad is it for the younger generation? Well, the percentage of young adults living with their parents is worse than at any time since the Great Depression. Why is this happening? Overwhelming levels of student loan debt, high cost of housing, and real wages which have stagnated for lower-level jobs.



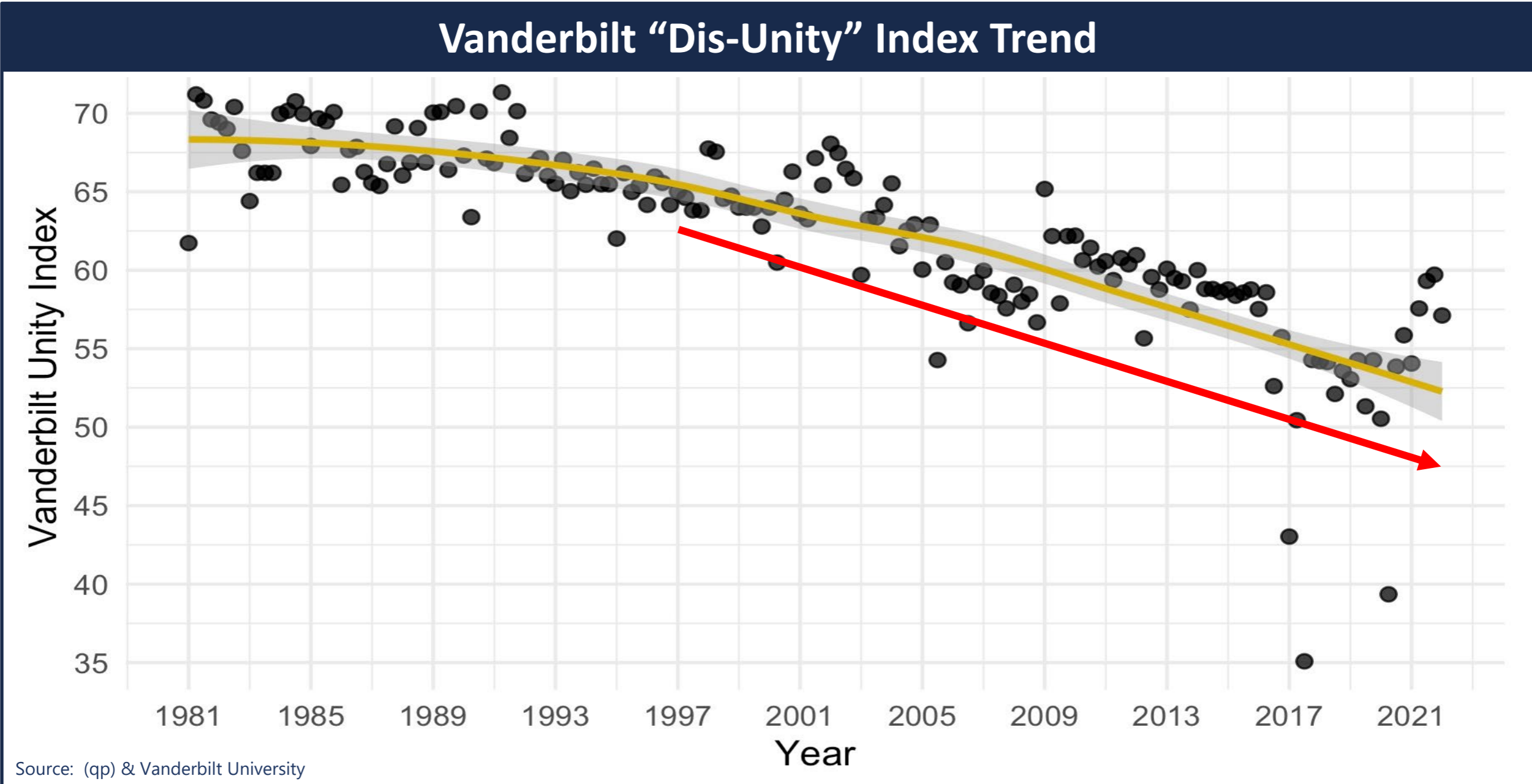


Polarization: A Country Divided



Polarization In The US Has Become An Ever-Larger Issue As Public Discord Increases

The VUI provides a quarterly snapshot of how unified (or disunified) Americans feel, with a forty-year history of showing a trend of increasing political polarization as a nation. This measure of Americans' level of political consensus continues to fall, and there are growing repercussions to this problem.





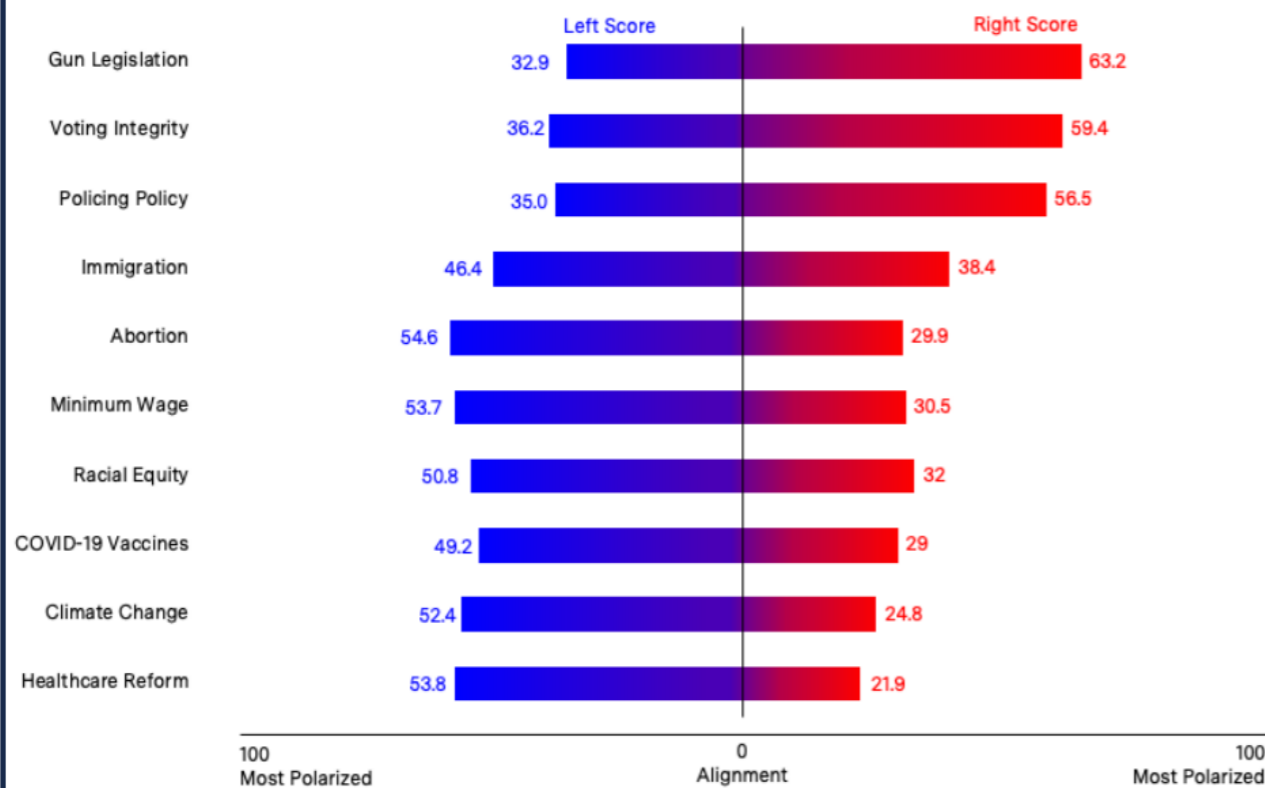
But Polarization Is Not A Coincidence, It's the Intention of Self Promoting Politicians

In a polarized society, extreme voices disproportionately influence the discussion, making politics of conflict a constant. But the controversial issues that fuel it have been less consistent. Changing levels of polarization on specific topics indicates that over time, politicians look for new ways to whip up their base.

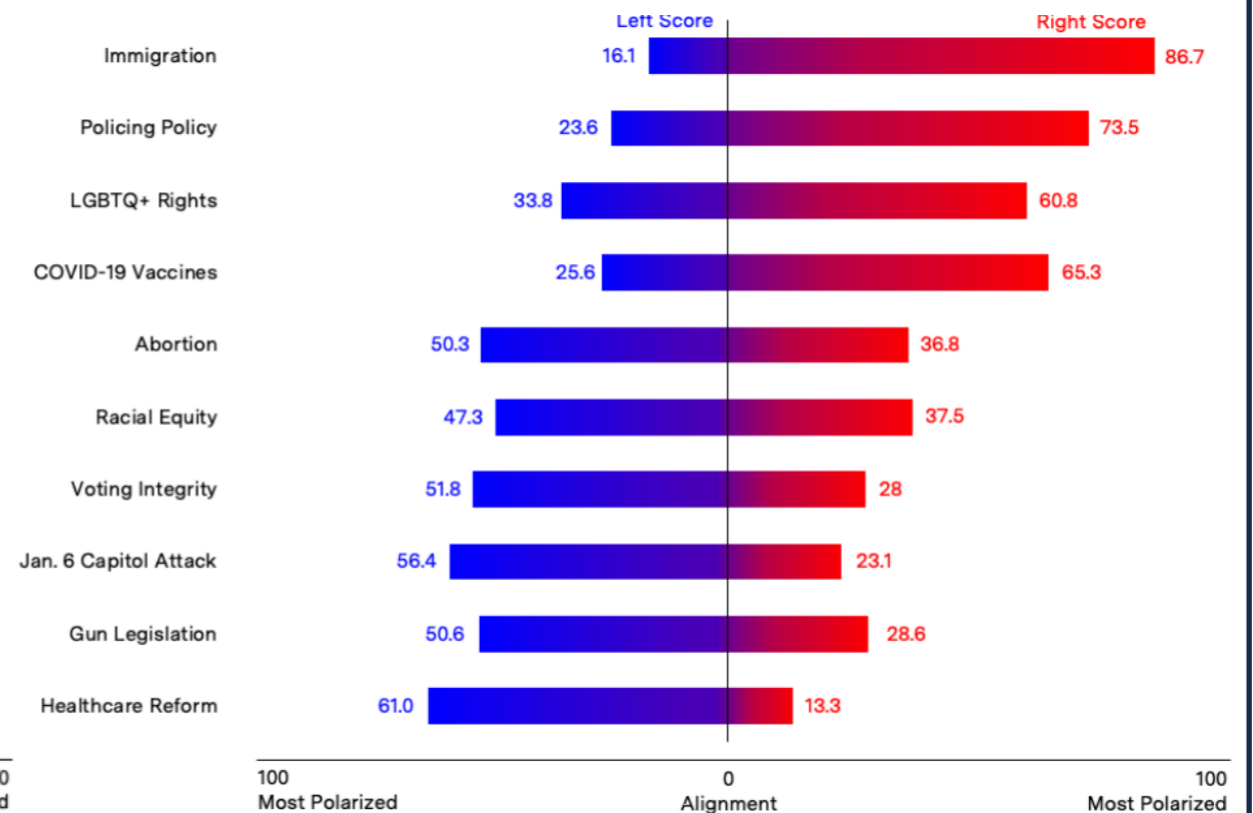
Polarization Driven by Issues, as Politicians Aim To Make Their Bases' Angry

Within just 2 years, the top issues whipping up the base of the two parties, have changed dramatically

Most Polarized Issues – Q4 2020



Most Polarized Issues – Q4 2022



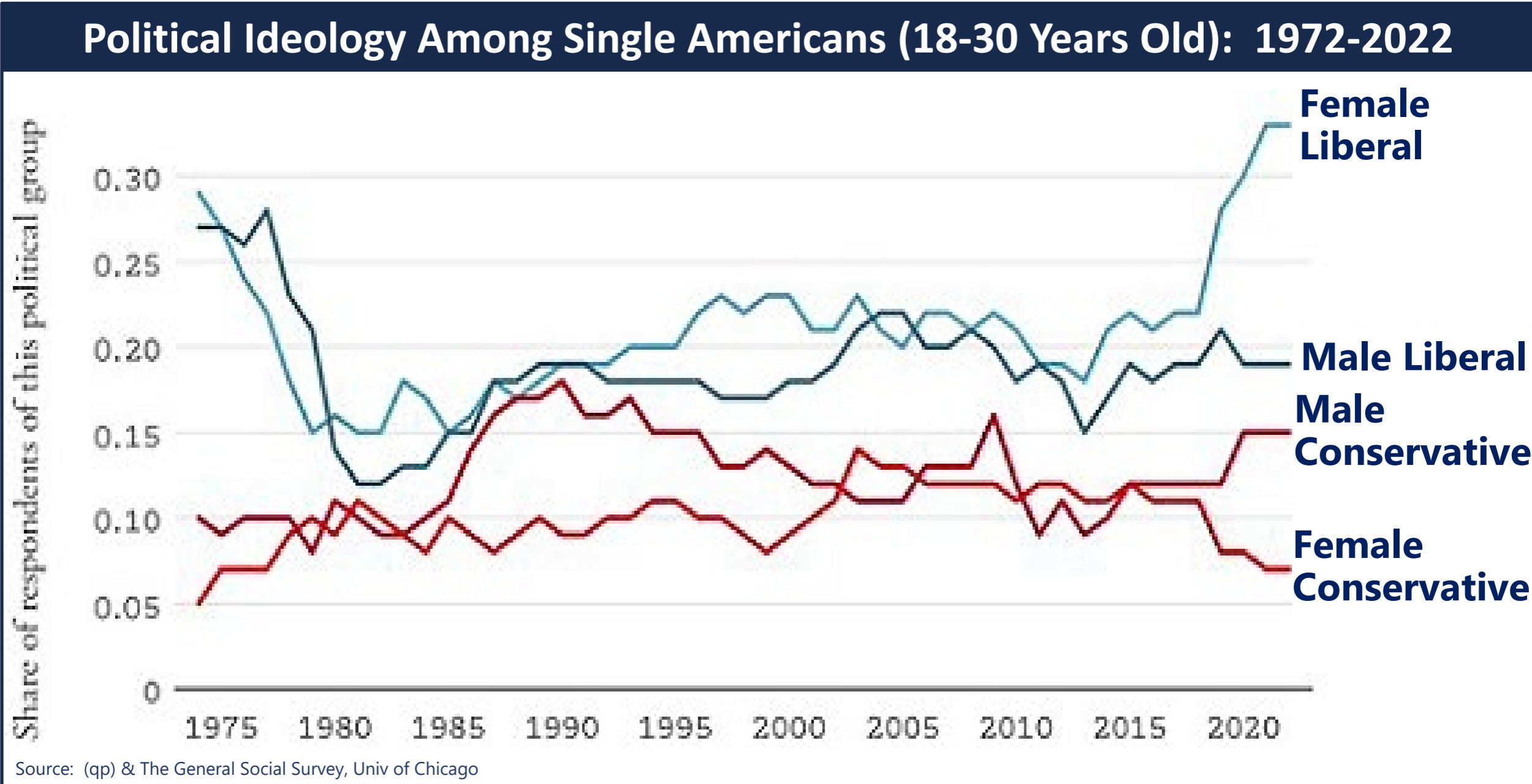
Source: (qp) & The Polarization Index





Polarization by Gender Suggests that Even Bigger Problems are Ahead for America

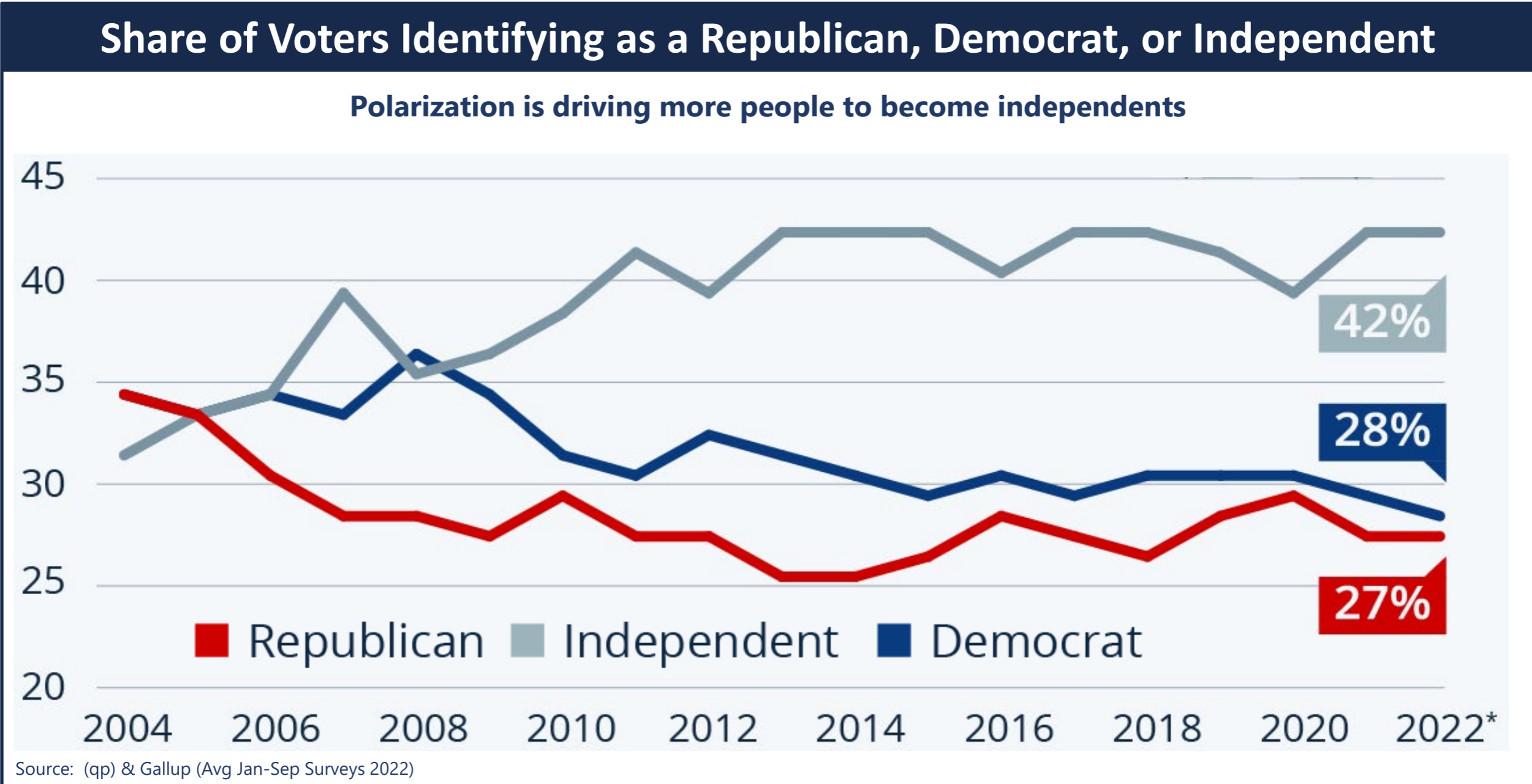
While polarization is clearly increasing, the most striking aspect of these trends is that the sexes are polarizing along ideological & political lines, coinciding with the rise of social media and the post-Trump landscape. Young single men have been moving to the right and females are moving quickly to the left.





The Bulk Of This Country Is Turned Off By Polarization, In Ever Increasing Numbers

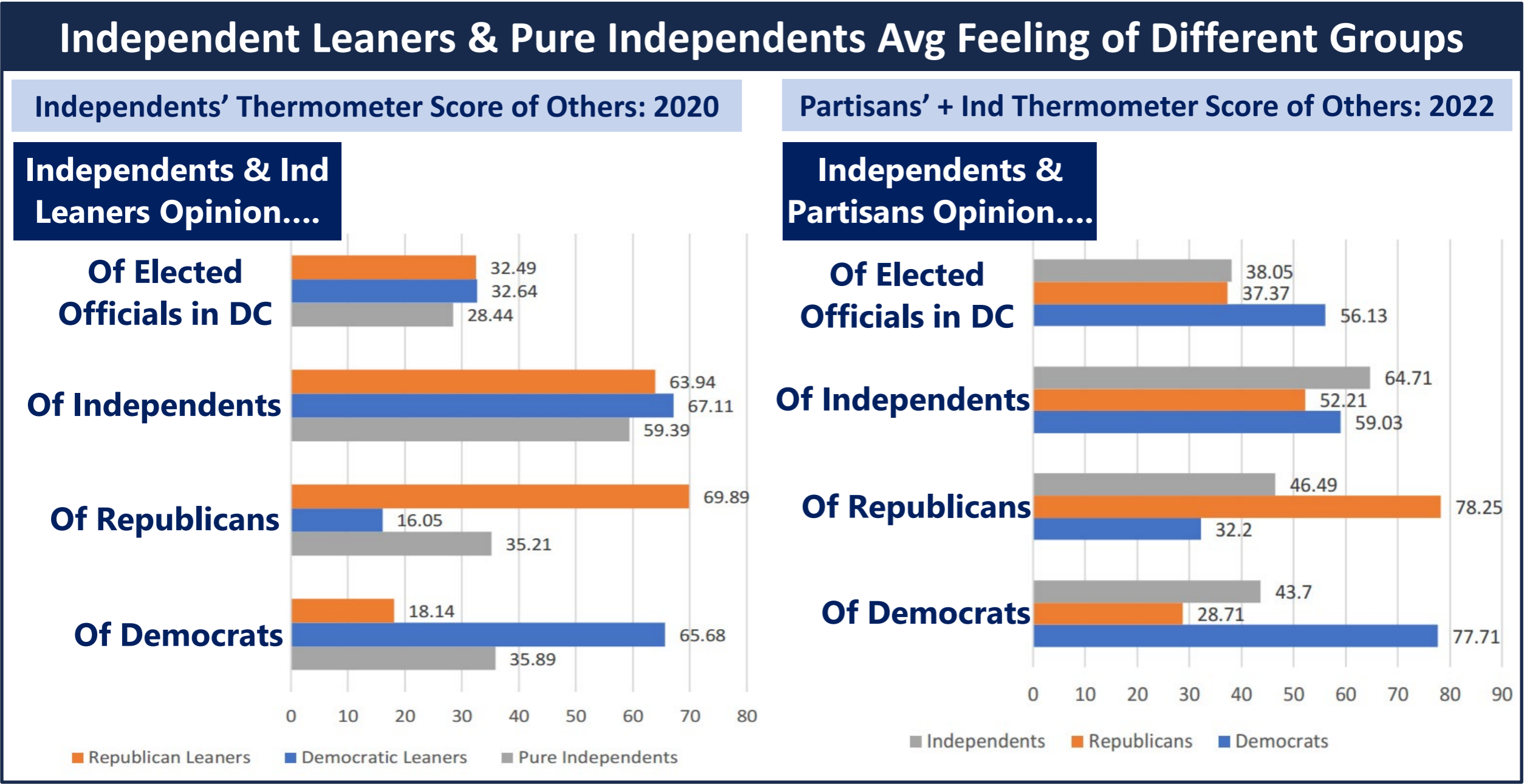
In a groundbreaking shift, more voters now identify as independent than with any specific political party. This evolution is predominantly driven by younger voters, who prioritize issues over party, especially as the far left and far right dominate headlines and often propagate unappealing & extreme policies.





Independents have Low Opinions of the Two US Political Parties, Even Leanners aren't Sold

Just 4% of US adults say the political system is working extremely or very well. Independents have even less belief in elected officials. This unhappiness is in stark contrast to the very high levels of voter turnout in national elections in 2018-2022. This speaks to people's desire for change... "radical moderate" change.





Demographics: The Powder Keg of US Politics

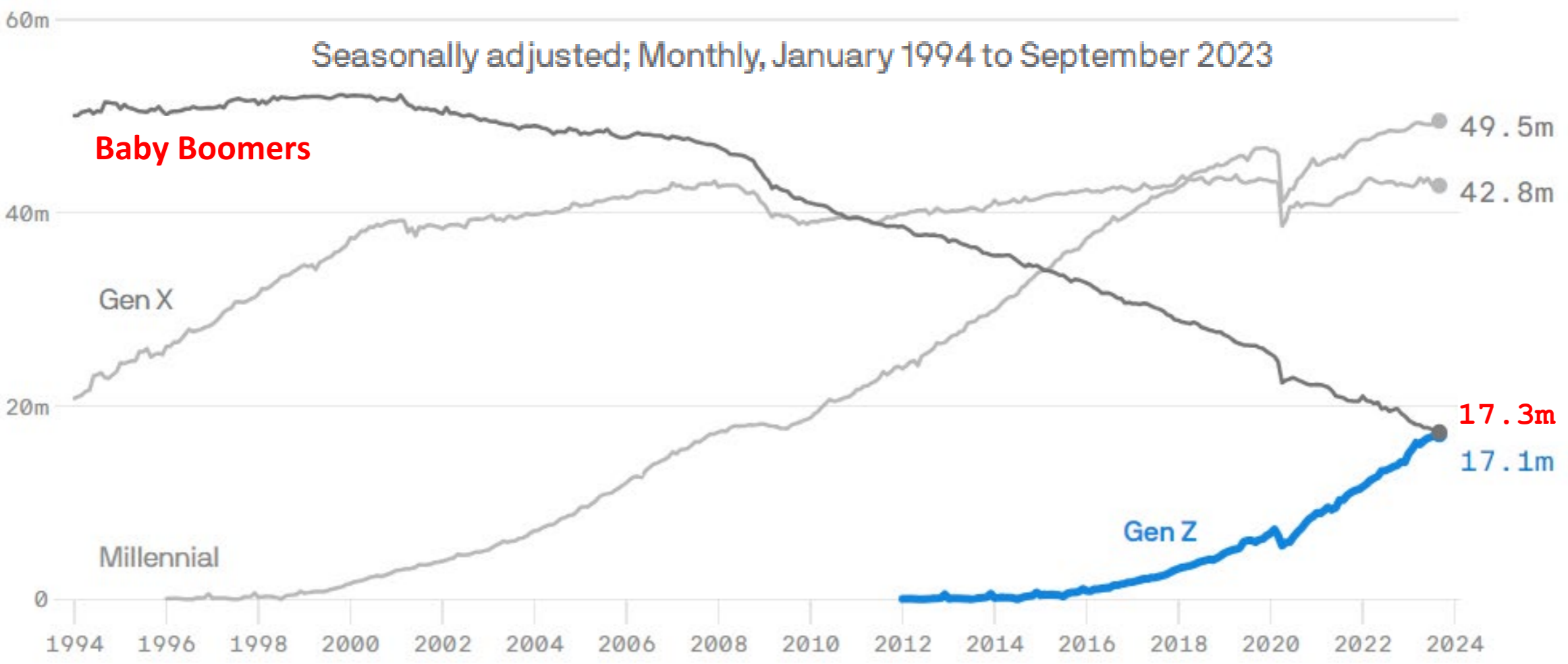


Those Who Pay The Bills, Are Those Who Are In Charge

While the size of the Baby Boomer generation and its wealth have made it the center of US economic and political power, with rapidly rising retirement costs and ever faster pace of retirements, the sun is setting on Boomer influence. In most societies, those with the money get to make the rules.

US Full-Time Workforce by Generation: Boomers will be Supplanted by Gen Z

In 2024 Gen Z represents a larger percentage of the US labor force, marking Boomers growing irrelevancy



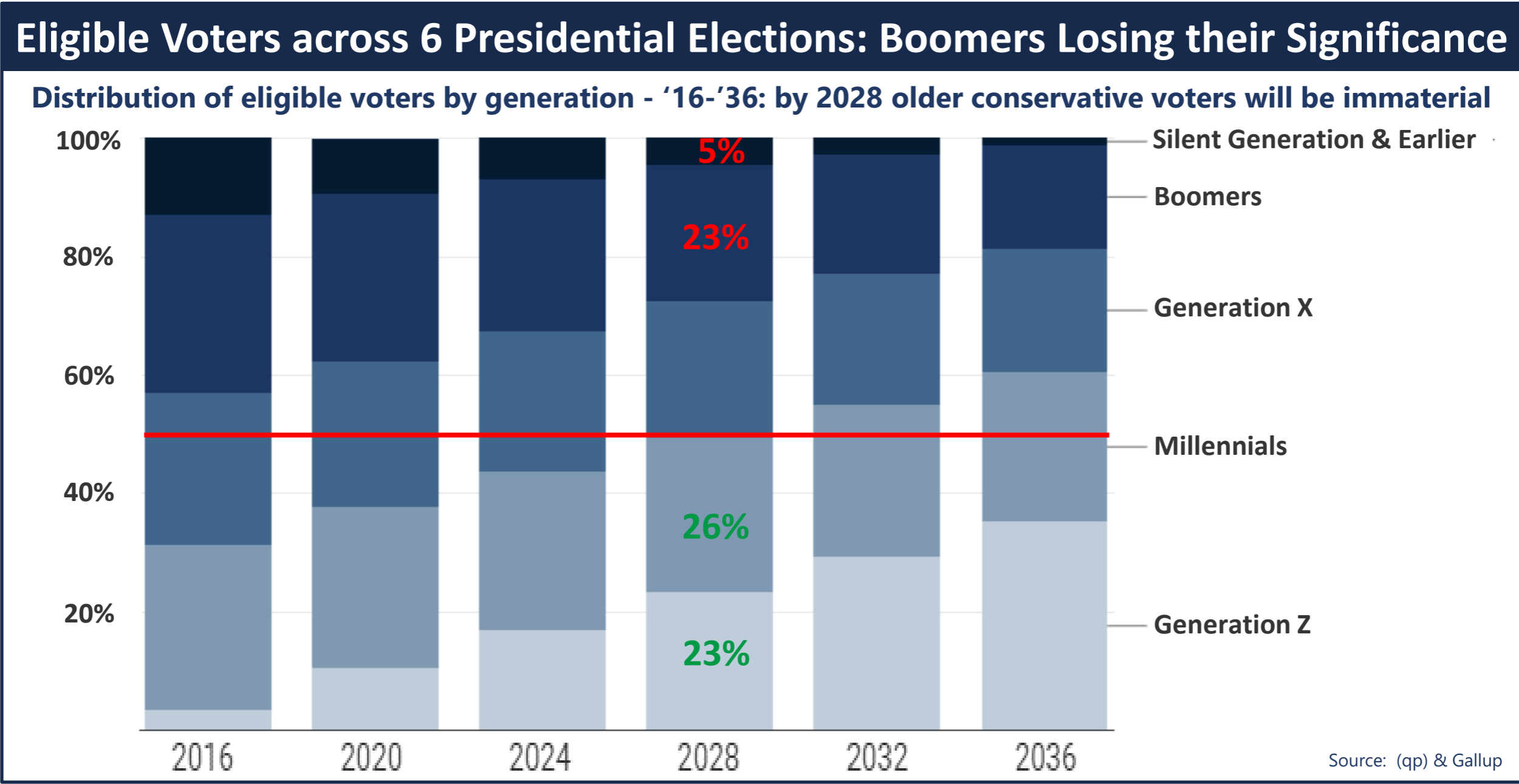
Source: (qp), Glassdoor & US Census





Changing of the Guard: Gen Z & Millennials Will Dominate the Future Electorate

Today's politicians cater to an older generation, with very different hot button issues. Unfortunately, over the next two presidential election cycles, those politicians who do not begin to understand that change has arrived, will not see themselves in office for long in most States and congressional districts.





The Younger Generations Lean Much More Left Than Older Generations

The country may seem evenly split between highly partisan Republican and Democratic bases, but in reality, the US is deeply divided by age on political leanings. This differentiation will have serious implications over the next 8 years, as the majority of the Silent and Boomer generations are no longer voters.

2012 vs 2022 Ideology by Generation

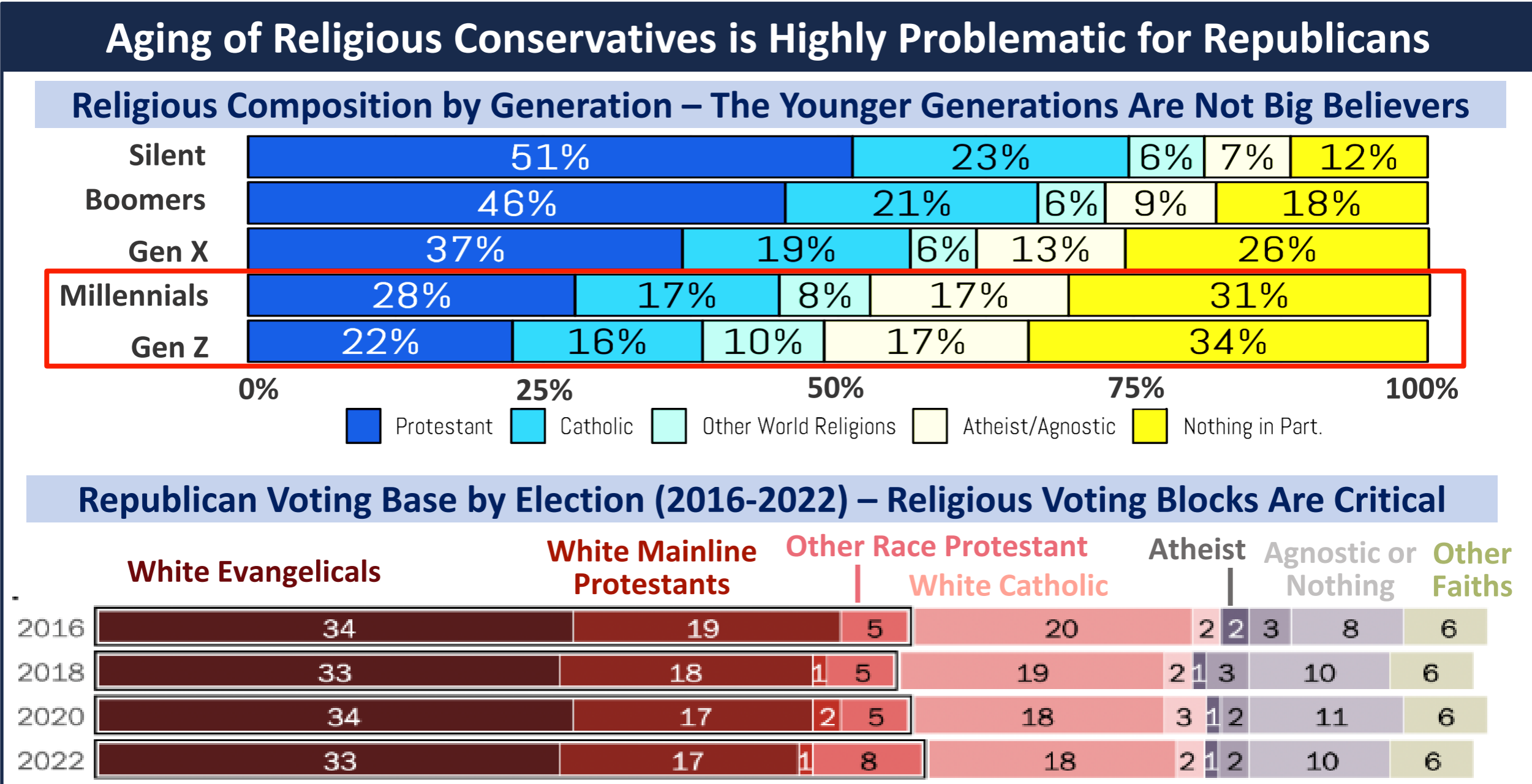
Boomers are a non-factor and Millennials & Gen Zs vastly outnumber the Gen Xers: it's just a numbers game

	2012 Political Ideology			2022 Political Ideology		
	Total Conservative	Moderate	Total Liberal	Total Conservative	Moderate	Total Liberal
All Registered Voters	37%	36%	24%	37%	33%	27%
Generation Z (Ages 18-25)	N/A	N/A	N/A	33%	26%	48%
Millennial (Ages 26-41)	30%	37%	30%	30%	32%	35%
Generation X (Ages 42-57)	35%	38%	25%	40%	37%	20%
Baby Boomer (Ages 58-76)	39%	36%	22%	42%	33%	23%
Silent Generation (Ages 77-94)	44%	33%	20%	47%	30%	19%



The Generational Shift Will Disproportionately Hit Older Religious Conservatives The Most

Protestant white voters without a 4-year college degree, are the core of the modern GOP coalition. But in '22 they represented only 38.3% of all votes cast, down from 43% in '14. Similarly, white evangelicals have fallen from 33% of eligible voters in '99 to 21% in '21, with the decline to accelerate through 2040.



Source: (qp), Pew, & Cooperative Election Study 2020-2022





The Age Of Redistribution Is Upon Us

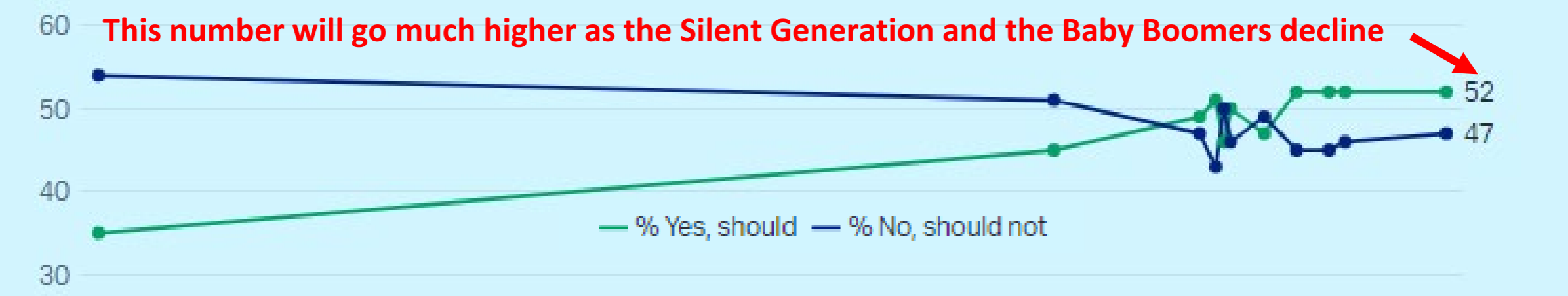


It Starts With the Sea Change of Support For Increased Taxes

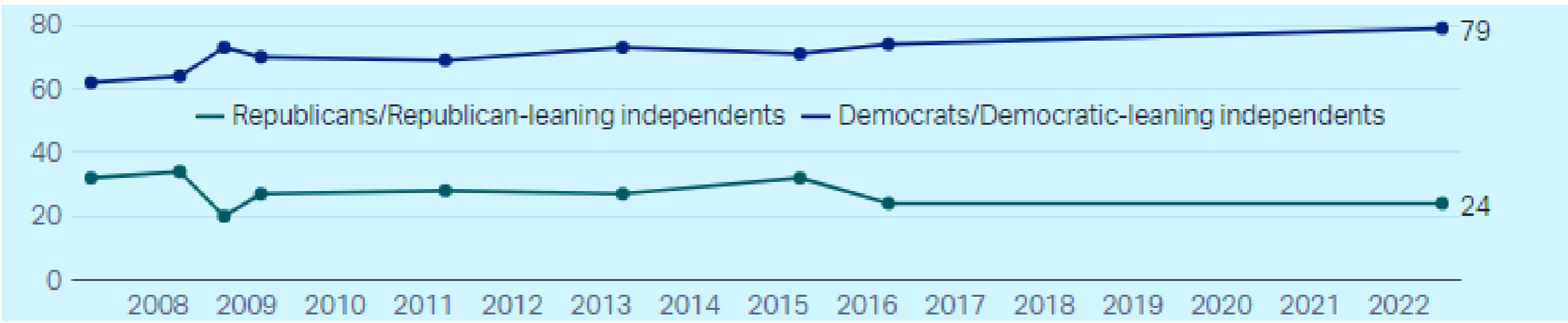
While many people believe they pay their fair share, in the end, when inflation is biting people's ability to buy basic necessities, and even if CPI falls to 2%, with a sizeable gap in wages vs prices, the gap just grows bigger. Add in massive fiscal deficits, and these are the foundational forces to lead a tax revolution.

Americans' Views on Redistributive Taxes For The Rich: A Growing Majority

Survey: Do you think our government should or should not redistribute wealth by heavy taxes on the rich?



Because Democrats and Democrat-leaning Independents Strongly Support Higher Taxes on the Rich



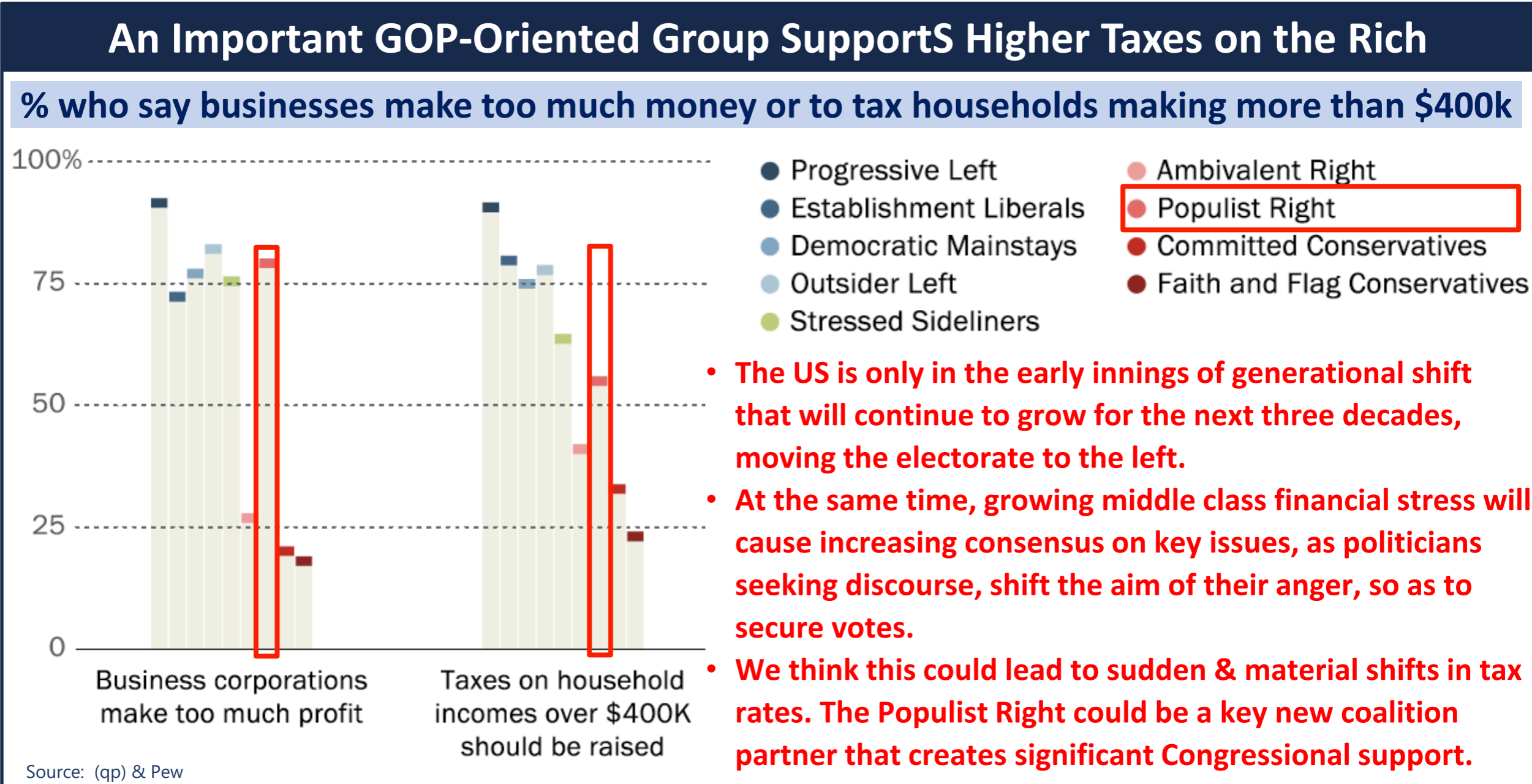
Source: (qp) & Gallup





Then New Coalitions Are Formed Across Party Lines

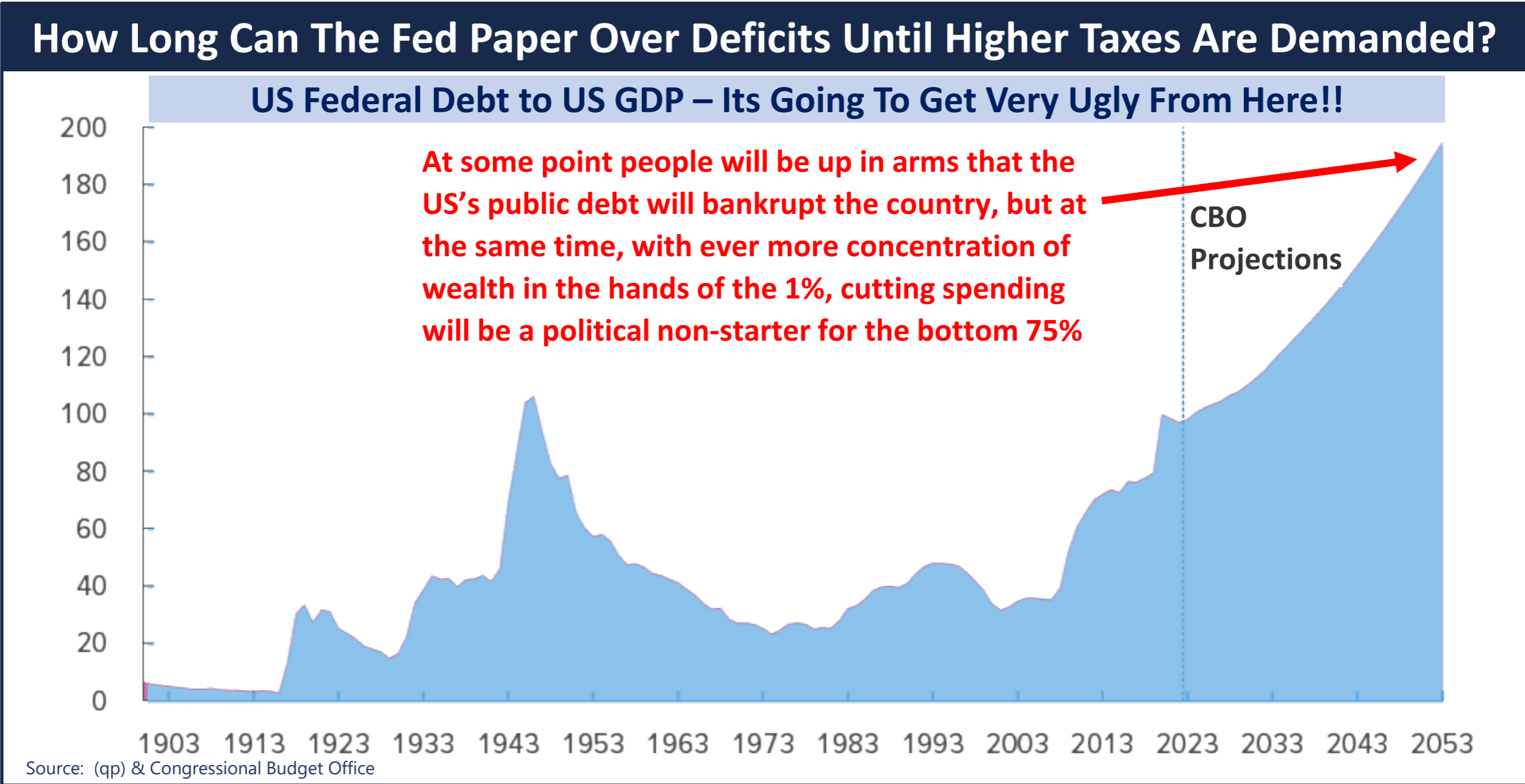
While the progressive left and most of the Democrats & Democrat-leaning Independents all are in strong support (ie ~75%+ approval) of higher taxes on the rich and corporations, there are also large groups within the GOP, such as the Populist Right (23% of Republicans), who also strongly favor higher taxes.





Then There Must be a Spark to Ignite The Revolution: Growing Fiscal Deficits

It's hard to understand how the US will finance its growing fiscal deficit, and the US CBO's projections do not include a recession in the next 30 years, which would be the first in global history by any country. The Fed will be forced to buy the US debt, but at some point, political pressure will mount exponentially.





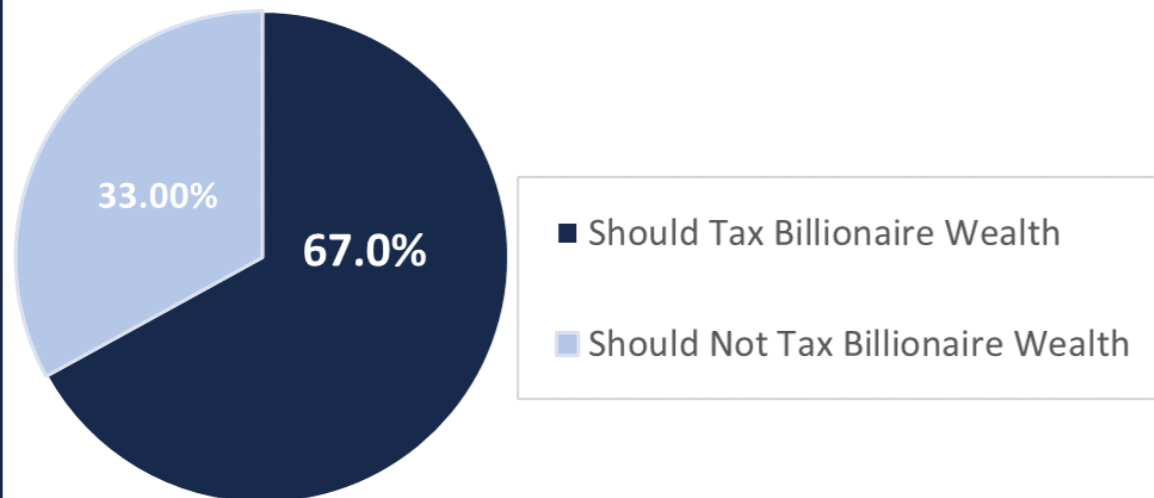
A Wealth Tax Is Likely To Be Passed: Large Voting Blocks Create Constitutionality

The finer implications of the 16th Amendment and the legitimacy of Congress to pass a wealth tax, is merely an equation of who sits on the Supreme Court. If the Court doesn't agree with the growing voter majority, we do not think its composition and term structure will survive the coming economic pressures.

A Billionaire Wealth Tax has High Popularity: Don't Bring a Knife to a Gun Fight

- There is no provision of the Constitution that expressly prohibits legislative changes to the size of the Supreme Court, and Congress has, in fact, changed the size of the Court multiple times in the past. That genie is out of the bottle.
- While President Franklin Roosevelt's ill-fated threat in 1937 to add new Justices who sympathized with his policies to the Supreme Court failed, the collective will of the vast majority of the people is an entirely different ball of wax. In this case, size matters. It matters a lot. Any politician that stands in the way of a big enough voting block, will not stay in office.
- Hence, no matter one's legal view on apportionment, the interpretation of Constitution's Article I, sec. 9, clause 4, that states that a "direct tax" must be apportioned among the states by population, is 100% the determination of the current justices.
- Nuanced debate on Originalism will become a lightning rod for voters who have a legitimate claim that the Founders lived in a different world: Why is Madison's constitutional views more important than Washington's view on raising funds for national causes? Gen Zs don't care!!

% who say: target billionaires to pay a wealth tax as part of the solution to wealth inequality



Source: (qp), the Hill & HarrisX 2020

- **If the majority of Supreme Court justices decide to follow some torturous, convoluted view that the Founders did not believe in a wealth tax, those justices' days on the Court are numbered: its a matter of numbers & that is a function of time**
- **From packing to term limits to outright impeachment, as inflation increases an already massive silent poverty problem, the new generations will vote for radical change and get it – 9 people vs 150MM who can't afford a \$400 emergency expense**



Conclusion: Be Prepared



Conclusion

From Wall Street Banquet to The Night Of The Poor: Inflation, Poverty, Polarization, and Demographics will likely incite a Tax Revolution which every Estate Planner, Trustee and Family Office must prepare for! Capitalism will face some of its toughest days ahead, but higher taxes does not mean its end. Just new challenges that we must all be ready to face. Those prepared will be well positioned to survive and thrive.

01

The Boomer Wealth Will Not Bail Out the Millennials & Gen Zs

Its often said that the nearly \$80 trillion of wealth held by the Boomers will bail out the younger generations' relative poverty. Unfortunately, with the significant cost of healthcare and retirement, along with promising drugs to extend age and need of memory care, not much of this wealth will pass on. The vast majority is also in the hands of less than 7% of the boomer households, so gifting will not help the bulk of those comprising these generational cohorts, who have more debt & less savings.

02

Fiscal Deficits Will Grow Exponentially In Size, Increasing Economic Fragility & Political Tax Trigger Points

In the end, most people know they must balance their personal budgets, and Congress's casual dismissal of this widely shared financial believe, will come back to haunt them. Even the US is not rich enough to keep spending and growing the Federal fiscal deficit, without facing severe consequences. While those consequences are further down the road, the US is a recession away from the growing Federal debt pile triggering a crisis of confidence to ignite the younger generations to push for higher taxes.

03

The US Has A Long History Of Majorities Pushing Around the Non-Majorities, Now that Minority is Old People

Name the demographic grouping and the voting majority has tended to not look kindly on the voting minority. For a long time Boomers, with their parents, have dominated US politics. But that is over. Older people receive the most individual transfer payments in the Federal Budget and have the most wealth, but they are now the minority. The majority has limited wealth. You do the political calculus! In a decade the younger generations will have the voting power to transfer Boomer wealth to themselves.

04

The Greatest Asset We Have In This Coming Revolution, Will Be Time

By all logic an analysis, the changing of the guard of the electorate majority, will lead to changes, as the economic pressures will eventually force younger generations to take action. However, that is not a likelihood in this 2024 election, especially given the limited appeal of both presidential candidates. Hence, there is time to plan on how to divide and/or maneuver assets out of large individual estates and down into future generations through various freeze mechanisms and other gifting strategies. But start now.

05

DO NOT Let Your Opinion On These Matters Color Your Analysis Of What Will Happen – Bend With The Wind

When it comes to politics, most people have an opinion. When it comes to taxes everyone does. However, we learned long ago that being anchored to what you want to happen, often clouds one's judgement of what will happen. Instead, free yourself of personal opinions and focus on how strong foundational forces will compound with time and reach objective conclusions. For those who do that well, the odds you will be prepared, and bend with the shifting winds and not breaking, will be much higher.



Bio



Brendan MacMillan – Founder and Chief Investment Officer, (qp) global

Biography

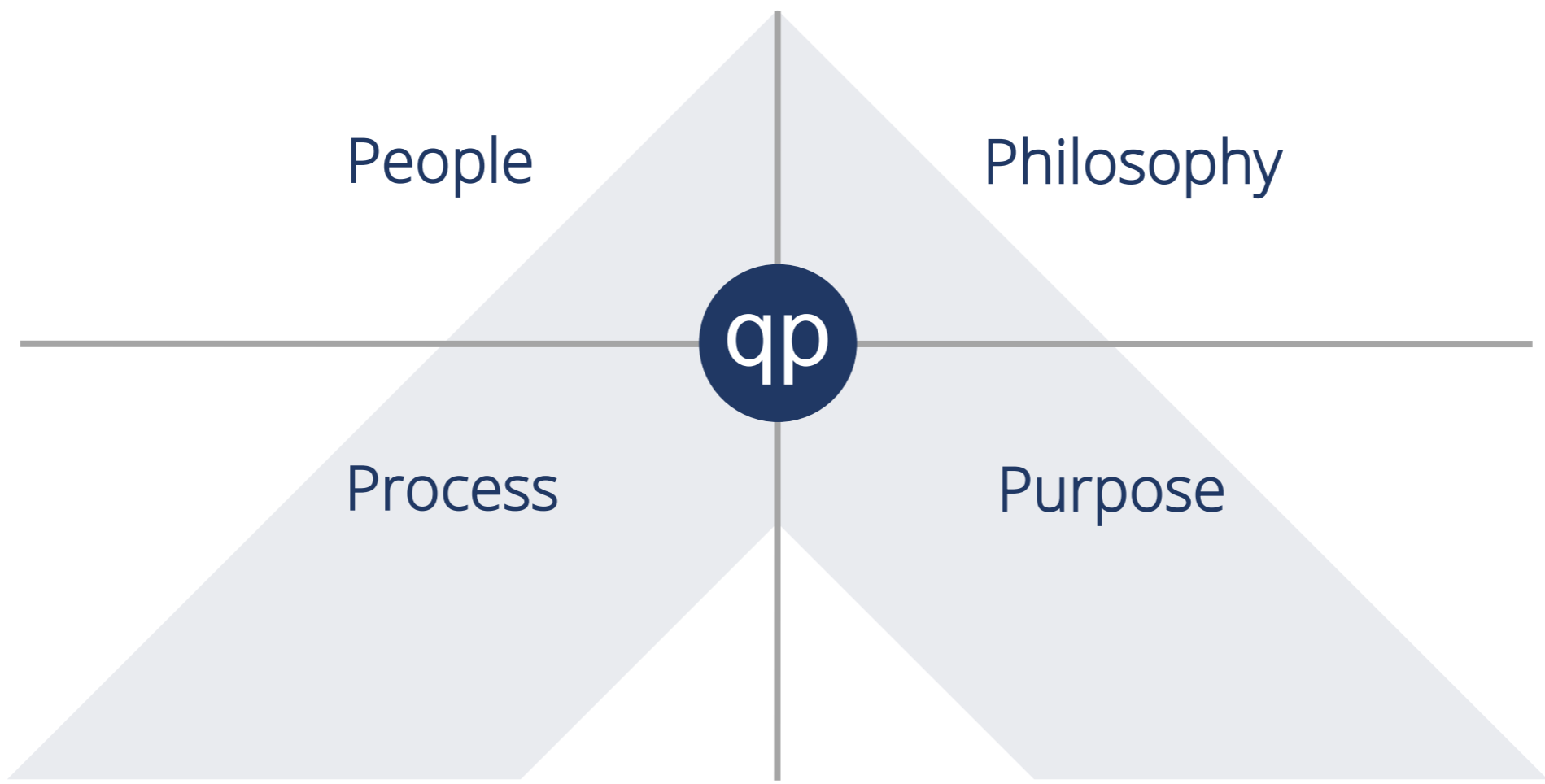


Brendan is the Chief Investment Officer of (qp) global - Before founding (qp), Brendan was the Chief Investment Officer of Akkad Capital Partners, LLC, a single-family office. Akkad's primary focus was to make control investments in healthcare companies and other Industries. Brendan helped create the office, built the investment team and assembled an advisory board to aid in deal sourcing, execution, post-acquisition management and growth of portfolio companies. Previously, Brendan was the Chief Investment Officer of Ocean Road Advisors, a single-family office based in New York City, where he focused on asset allocation, uncorrelated strategies, private equity deals and public securities, across all sectors and geographies. Prior to Ocean Road, Brendan was the sole Portfolio Manager of Legatum Capital, a multi-billion dollar single-family office and investment firm based in Dubai. Brendan was also a partner of Oceanwood Capital, a Tudor spinout that focused on even driven strategies. While at Oceanwood, Brendan started Oceanwood's effort to buy failed banks, as Senior Managing Director of BSE Management, a partnership with Bill Isaac, the Former FDIC Director, Jack Ryan former CEO of the RTC, former head of both the Office of Thrift Supervision and the Federal Reserve's supervisory group under Volcker. Out of business school, Brenda joined Owl Creek, a distressed debt fund that spun out of Michael Price's Mutual Series. Prior to business school Brendan helped Peter Thiel launch Clarium Capital and worked for the predecessor investment firm, Thiel Capital. Prior investment experience includes being president of Xfiniti Capital, a US-Asia based venture capital firm and also working as an associate at Windward Capital (formerly CSFB Private Equity). Brendan started his career at Merrill Lynch in their Mergers & Acquisition group.

- **Unique Capability/Perspective:** Strong experience marrying a global, multi-asset class investment background with deep risk management capabilities, and integrating that into complex trust & estate plans, acting in a strategic capacity to maximize returns, while minimizing taxes and risk
- **Previous Family Offices:** Akkad Capital, Ocean Road Advisors, and Legatum
- **Education:** Brendan is a cum laude graduate of Bates College with a BA in Economics, a General Course graduate from the London School of Economics, and earned an MBA from Harvard Business School.
- **Awards/Highlights:** Institutional Investor awarded Brendan the Hedge Fund Rising Star award and nominated Ocean Road for Family Office of the Year under his leadership. He was also named in 2017 as a Top 30 Family Office Chief Investment Officer by Trusted Insight and has repeatedly been a member of both Trusted Insight's and Institutional Investor's Family Office Advisory Board. Co-author of the Biden Administration's Semiconductor Policy.



The four Pillars of investing, compounded by the power of (qp)'s Perspective





THANK YOU



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