

Coach's Corner

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After-Tax Advisor

'All Politics Is Local'

By: Eaton Vance Advisor Institute | October 6, 2021

This phrase — generally attributed to former Speaker of the House Thomas "Tip" O'Neill (D-MA) —speaks to the importance of communicating national initiatives in locally relevant terms. The After-Tax Advisor® recognizes and communicates that ballot initiatives and election results can have a lasting local impact on clients' portfolios during the run-up to scheduled elections each November —whether federal, state or local.

Federal elections occur at least every even-numbered year, when **all** seats in the U.S. House of Representatives and about one-third of seats in the U.S. Senate are up for grabs. Special elections to fill vacant seats can happen almost anytime. Make policy differences in federal elections relevant to clients locally by using statements such as:

"If [Democrats/Republicans] win a clear majority in the House, they will likely try to advance several tax changes: [insert proposed tax changes]. Whether these go anywhere in the Senate depends on which party holds a majority of Senate seats postelection. Here's how we'll prepare for either outcome: [insert strategies]."

State income taxes and property taxes have increased relevance in light of the \$10,000 State and Local Tax (SALT) cap imposed by the Tax Cuts and Jobs Act of 2017. This doesn't just affect clients in high-tax states like California and New York; it also affects clients in states that rely on high local property taxes as a substitute for state income tax. Incorporate state elections into conversations with clients by asking questions such as:

"If our state legislature postelection is majority [insert party] and follows through on its proposed tax changes, what adjustments would you like to make to your investment income mix and your annual deductions to improve your tax outcome next year?"

Local elections can feature spending measures and bond issues, and election results can influence property and sales taxes. These are all reasons for After-Tax Advisors to discuss municipal bond allocations with their clients. While some may want to buy only local issues as a way of putting their money to work in their own neighborhood, After-Tax Advisors emphasize the value of diversification. If a client insists on owning only general obligation bonds from the municipality in which he lives, for example, consider asking:

"Whose taxes could be raised in the future to help retire the additional debt our city and state are taking on?" (Answer: His/her own taxes.)

While it may not be possible to stay abreast of every local, state or federal election issue, it makes sense to have a few broadly applicable ideas (such as "diversify" and "plan for either outcome").

Bottom line: After-Tax Advisors make an effort to understand the possible tax implications for their clients every November.

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