



Basis Points – May 20, 2021

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Above the Fold

Is It Really a Good Time to Cut 1031?

As part of pandemic-related actions, an eviction moratorium order was put into place in late 2020 by the Centers for Disease Control and Prevention (CDC) to protect Americans who had lost their jobs or fallen ill from COVID-19. Various states and municipalities also issued similar orders, putting landlords at a major disadvantage. While the intentions seemed good, the legislation has had devastating effects on many property owners who depend on incoming rents to survive. As the moratorium is set to end this summer, property investors now face another challenge...

Since 1921, real estate investors have been able to defer capital gains taxes so long as they “roll” their profits into another property of the same value or greater. Taxes would not be paid until the property was sold outright (which could even be after death). Called a 1031 exchange, the tax rule has been a major driver and incentive not only for initial investment in residential, multi-family housing and commercial properties, but also motivation for investors to diversify, grow and take risk (and their money) to different areas.

Part of President Biden’s new tax plan would be to completely eliminate 1031 exchanges on values greater than \$500,000 and disallow property holdings to be passed into an estate without paying mark-to-market taxes at the point of transfer. Experts believe the new laws could have devastating effects on an already risky, pricey and complex area of the economy. President Trump had already removed 1031 exchange tax treatment for other types of assets, such as artwork and machinery.

Three Things

1. *The Electric F-150 Is a Big Deal* – Aside from a recent presidential endorsement, a successful rollout of the top-selling Ford F-150 in its all-electric form could be a true game-changer for the electric vehicle (EV) market. With nearly 800,000 F-150s sold in 2020, the truck is a benchmark for the pickup segment. With competitors like GMC, Chevy and Tesla already set to release their EV pickups, a major rollout by Ford could tip the scales and give confirmation to consumers that EVs are here to stay.
2. *Amazon’s Ring Is Now America’s Largest Surveillance Network* – An Amazon engineer cautioned management that the “Ring” cameras and doorbells installed across the nation are “not compatible with a free society.” Hundreds of millions of these monitoring devices are online at all times, with recordings housed in Amazon’s cloud. One in 10 police departments can request access to those recordings without a warrant through a software backdoor built into the system.
3. *Finding LIBOR’s Replacement* – The London Interbank Offered Rate (LIBOR) has long been used to set borrowing costs on everything from business loans to mortgages. Unfortunately, LIBOR has been riddled with scandal, manipulation and illiquidity — and it’s set to be abandoned by the end of the year. Despite all this, loans tied to the embattled rate benchmark have been increasing while banks and regulators clamor to find a better solution. There are a couple contenders, like the secured overnight financing rate (SOFR) and the Ameribor Term-30, but no finite decisions have been made.

Did You Know?

Changing Investment Habits

More than 55% of American adults were invested in the stock market in 2020. Fidelity realizes that it’s not just adults who want to trade, and recently launched a new type of account for teens age 13 to 17 that will allow them to save, spend and invest their money in the market. These “teen

accounts” will have zero fees or minimum balances, but will require a parent or guardian to co-sign and have their own regular account.

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