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A Message from the CEO

We've marked some big anniversaries this year. It's been 100 years since the signing of the Treaty of Versailles, 75 years since the D-Day landing, and 50 years since Apollo 11 landed on the moon. It's also been 10 years since the depths of the Great Recession and, admittedly less significant in the grand scheme of things but important to us nonetheless, a little more than 10 years since we opened our doors at Evercore Wealth Management.

No one knows what happens next. The war to end all wars was followed by an even bigger one; the European project is under threat; and we haven't been back to the moon since the early 1970s. This 10-year and counting bull market in U.S. stocks could keep on running and our strong economy could stay strong – or it could end tomorrow. As John Apruzzese writes in this issue of *Independent Thinking*, there are reasons to think otherwise, at least in the short term, although we may come to regret the continuing growth of our peacetime deficit.

We have views, of course. Our insights as wealth managers are informed by our own considerable collective experience through market cycles and are enhanced by those of our colleagues at Evercore ISI. But they are always tempered by economic, political and market uncertainties, and the always evolving and often surprising needs and goals of our clients and their families. That's why articles in this issue and all others range from the fairly academic (here, a look at modern monetary policy by Brian Pollak and value investing by Aldo Palles) to the very practical (investing capital gains in tax-efficient new Qualified Opportunity Zones by Stephanie Hackett), to those that bridge the emotional and financial aspects of wealth planning (gifting by Ross Saia) and my own piece on late-in-life divorce.

None of us can really know much of what the next 10 years will bring, but we can hope for the best and prepare for the rest. We do know one thing: At Evercore Wealth Management and Evercore Trust Company, N.A., we will always put our clients' interests first.

In that vein, we continue to invest in our people, and we were pleased to recently name three colleagues – Stephanie Hackett, Helena Jonassen and Kate Mulvany – to Partner; all well-deserved promotions. We hope to continue building our firm, adding to our growing presence in New York, Florida, Minnesota, California, and Delaware. And we hope – and certainly expect – to continue taking great pride in our performance as a firm, even as we work to ensure that our clients are prepared for the eventual change in the markets.

At the same time, we continue to plan by stress-testing client portfolios and showing clients and prospective clients what a market drawdown can do to their assets and the real impact of taxes, investment fees and risk (something very few wealth management firms do, by the way). And we continuously review accounts to diversify and rebalance client portfolios as appropriate to capture gains and stay on target to meet goals for individuals, families, foundations and endowments, and to adjust as market conditions and personal circumstances change.

I trust that you and your family are enjoying the summer and looking forward to the fall. As always, please feel free to contact any of us to discuss the topics in this issue of *Independent Thinking* or with any questions or comments you may have. We encourage your engagement.

Jeff

Jeff Maurer
Chief Executive Officer

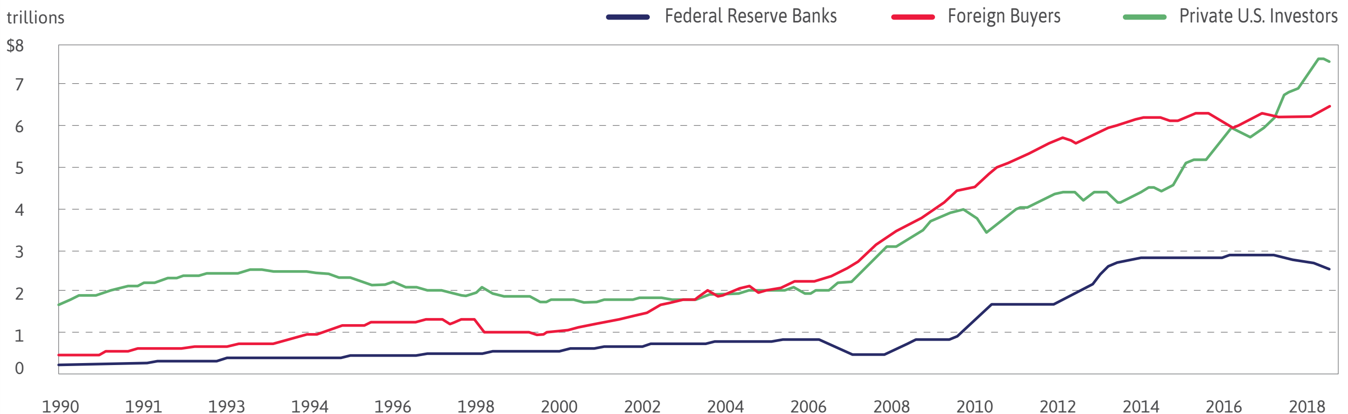
Delayed Impact: the U.S. Deficit and Investors

By John Apruzzese

The United States is running a $1 trillion – and widening – deficit. That's despite a robust economy and a 10-year bull market, now the longest on record. But even as new debt piles up on top of old, investors and politicians remain sanguine. How long can this last?

Demand for U.S. Treasuries may be the best indicator. While demand is more difficult than supply to measure or analyze, it appears that the desire to own our bonds remains sky-high, notably among domestic investors. The world buys Treasuries, in part because the U.S. dollar functions as the global reserve, and in part because returns, while near historic lows, are nevertheless better at present than those in many other industrialized countries. Although global appetite remains constant, U.S. investors are driving the recent surge in demand, as illustrated in the chart below.

Why is domestic demand so high? It's because the private sector of the U.S. economy – households and businesses – are financially healthy and growing. Corporations are generating record profit margins; jobs are plentiful, wages are growing; and aggregate balance sheets are strong. This private



Note: In Trillions of USD.
Source: Federal Reserve Economic Data – January 1, 2019.

sector demand managed to digest the $600 billion offloaded by the Federal Reserve over the past 18 months as part of its effort to shrink its balance sheet in the long wake of the 2008 financial crisis – and there is no sign of that appetite abating anytime soon.

We aren't experiencing the normal consequences of high deficits and debt.

A healthy economy can serve as a reason to reduce debt. Now, it is serving as a reason for the government – and prospective candidates – to take on more. Powerful, secular deflationary forces of changing demographics and technological innovation, as discussed in previous editions of *Independent Thinking*, are overwhelming any inflationary impulses, and the rate of interest on the national debt is not rising dramatically, even as the debt itself rises, as illustrated on page 4.

Of course, low interest rates can only occur when inflation and, most important, inflation expectations are also low. Inflation is generally considered the ultimate constraint on any government borrowing in its own currency. Investors will demand higher interest rates if and when they believe that the excessive borrowing and spending will force the government to effectively devalue the currency and raise inflation.

Clearly, we aren't hearing the political cries for austerity that we might otherwise expect in these circumstances, as we aren't experiencing anything like the normal consequences of high deficits and debt.

Instead, we are experiencing a seismic shift in wealth distribution. The strong domestic private sector demand for investment is narrowly sourced, with just 1% of households controlling 31% of net worth, compared with 23% in 1990, as illustrated on page 4. This changing distribution has been a boon to the markets, as the concentration of wealth among the investing class has helped boost asset prices. Some of the incremental savings and investment flows to riskier asset classes such as stocks, private equity and real estate,

but a significant proportion is allocated to relatively safe investments, no matter how low the returns.

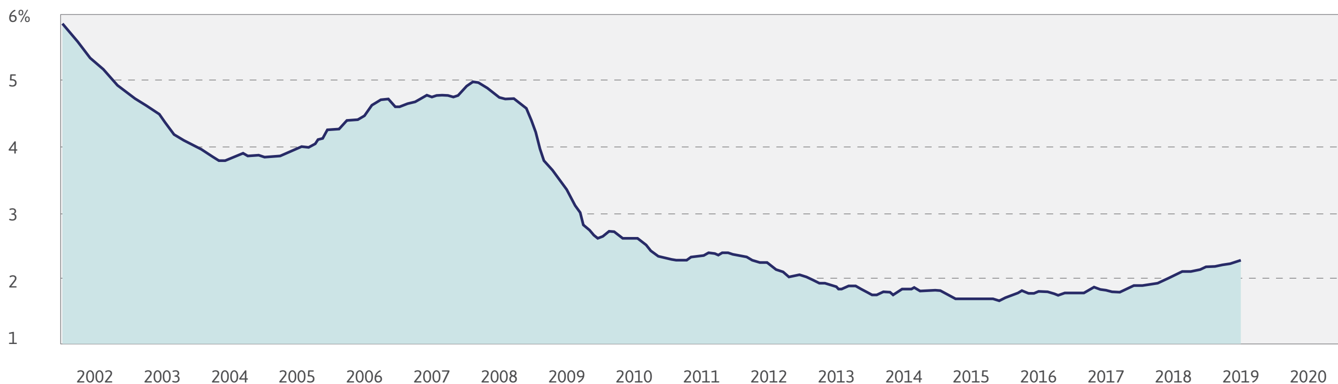
Consider Europe, where trillions of euros are invested at negative interest rates, presumably because the downside is effectively capped, at least in nominal terms. (And the real return could end up being positive in the event of deflation.) It's a similar story in Japan, as discussed in Brian Pollak's article on page 5.

At present, the government is getting the nearest thing to a free lunch, running a $1 trillion deficit while the interest rate it pays on its debts declines. But it looks like politics will eventually drive the government to ever-increasing deficits until the negative consequences become a reality. In the interim, the continued strong demand for U.S. Treasury debt at very low interest rates suggests that investors are not yet piling into risky assets with anything like the abandon that signals a market top. We remain fully invested in growth assets and continue as appropriate to rebalance portfolios as those assets appreciate to meet each client's unique goals.

John Apruzzese is the Chief Investment Officer of Evercore Wealth Management. He can be contacted at apruzzese@evercore.com.

Net Interest Paid by U.S. Federal Government

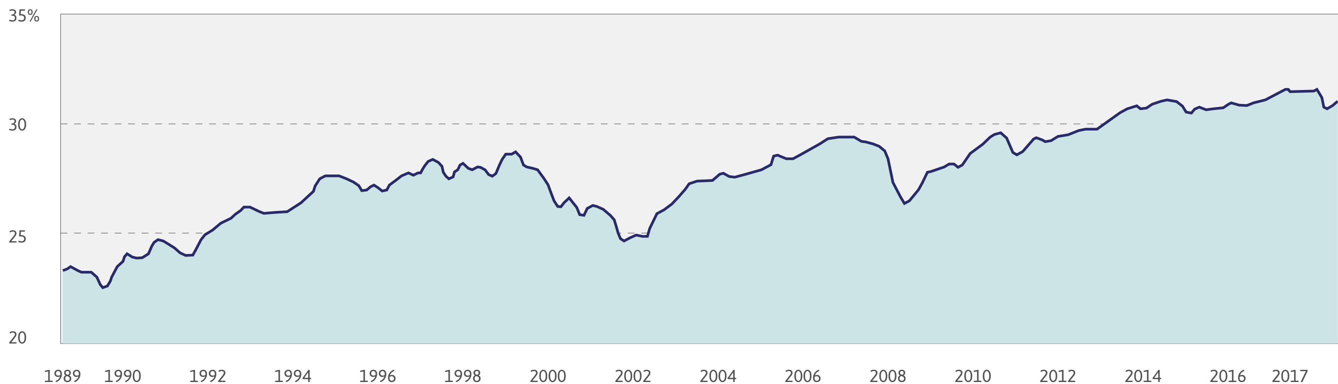
12-month sum as a percent of 12-month average of publicly held Treasury debt



Source: Yardeni Research. Dr. Edward Yardeni. July 11, 2019. US Treasury Department and Monthly Statement of the Public Debt of the United States.

Share of Total Net Worth Held by the Top 1%

Almost one-third of U.S. net worth is controlled by 1% of the population



Source: Federal Reserve Economic Data – January 1, 2019.

Modern Monetary Theory and a Free Lunch

By Brian Pollak

As deficits expand, driving up government debt in the United States and elsewhere, a radical theory is gaining traction in Washington, including among members of Congress, even as mainstream economists dismiss it as unfeasible or downright dangerous. Modern Monetary Theory, or MMT, is built on one big idea: Large government deficits, even to levels long considered lethal to a stable, prosperous economy, are not only benign but beneficial.

MMT was considered a macroeconomic sideshow a few years ago. But with recent attention and advocacy from the progressive wing of the Democratic Party and its highest-profile member, the freshman Congresswoman Alexandria Ocasio-Cortez, it is an idea on the rise, and one we expect to gather momentum as the 2020 election cycle hits its stride.

The idea has attracted scorn in other circles, however. Financial luminaries as diverse as Warren Buffett, the *New York Times* columnist and Nobel economics

77%

Debt to GDP is now 77% of GDP, up from 39% 10 years ago

laureate Paul Krugman, and Lawrence Summers, who served as Treasury secretary under President Bill Clinton, have written or spoken negatively about it. During Senate testimony earlier this year, Jerome Powell, the Federal Reserve chairman, dismissed MMT as "just wrong."

So what is this economic theory that is generating so much attention and polarization? MMT's adherents contend that any country that issues its own currency and maintains full control over it (that would include the United States and exclude members of the eurozone and jurisdictions such as China, which pegs the value of its currency to the dollar) need not worry about large deficits or debt loads unless they cause excessive inflation.

This thinking quickly leads to the notion that government spending should not be constrained by concerns about how to pay for it. If the deficit becomes too large, a country that controls its monetary policy can print money to fund it or to cover the interest on its outstanding debt. Again, it can only print money without risk as long as inflation stays under control, but it will, according to the theory, unless both the public and private sectors spend too much at the same time; printing money will not cause inflation in and of itself. The role of the U.S. dollar as the global reserve currency – the one used for substantial amounts of international trade and borrowing – gives the United States even more flexibility to run up deficits, according to MMT proponents.

Faith in MMT also is rooted in the notion that every dollar of government spending, while creating a deficit on the public ledger, ends up creating an extra dollar for consumers. It then follows that government spending creates prosperity. As politicians are happy to tell voters that they can have their cake (unlimited spending, in this case) and eat it, too (without consequences), we wouldn't be surprised to see growing interest in this idea.

> *The government is already pursuing a form of MMT*

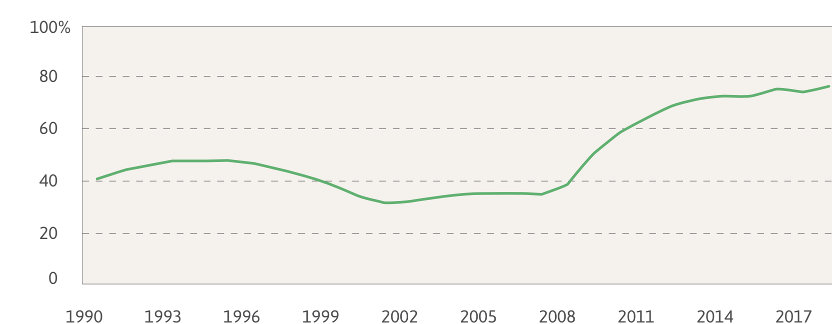
But can it work? In many ways, with deficits mounting and debt accumulating relentlessly and rapidly since the turn of the century, the government is already pursuing a form of MMT. In the 10 years through the first quarter, the fiscal debt has expanded to 77% of gross domestic product from 39%, according to the Federal Reserve Bank of St. Louis. The deficit has ranged from 2.4% of GDP to nearly 10% over that span. As John Apruzzese discusses in the cover article of this issue of *Independent Thinking*, although Democrats and Republicans have very different ideas of what the government should spend money on, they now appear to agree on the viability of perpetually large deficits.

If the U.S. economy is heading in the direction laid out by MMT, it's Japan that seems to have blazed the trail. The theory's principles mesh quite well with the extraordinary amounts of borrowing and money creation Japan has used to fund the high levels of spending required by its aging population and shrinking labor force. Chronic deficits have driven the ratio of debt to GDP in Japan to nearly 200%, according to the World Bank, up from about 82% 20 years ago.

Japan is proof that egregious debt loads to fund government spending can be sustained for much longer

As deficits mount, debt accumulates

Federal Debt Held by the Public as Percent of GDP



Note: Federal debt held by the public as a percent of GDP.
Source: Federal Reserve Economic Data – January 1, 2019.

than traditional economic theories predicted, at least in an advanced economy with a highly educated population and a high standard of living. Whether it will continue to work remains an open question, of course. At some point, the market may lose faith in Japanese government bonds or JGBs. Japan does not suffer from inflation, a condition that erodes the value of bonds when it flares up, but its economy is afflicted by the potentially more virulent scourge of deflation. While an aging population and a shrinking labor force are certainly factors, some economists blame the high debt loads as the primary cause of both deflation and anemic economic growth.

The stagnation has depressed Japanese equity markets, which have had an annualized total loss of about 0.5% over 30 years, underperforming JGBs. Far from suffering under the massive debt, JGBs have benefited from deflation and carry negative yields (people actually pay money to own them). But JGB holders may decide – in what might be taken as ominous foreshadowing for holders of U.S. Treasury bonds – that Japan's extreme fiscal indebtedness makes the paper too risky to own without receiving higher yields in compensation.

200%

Japan's debt to GDP is now 200%, up from 82% 20 years ago

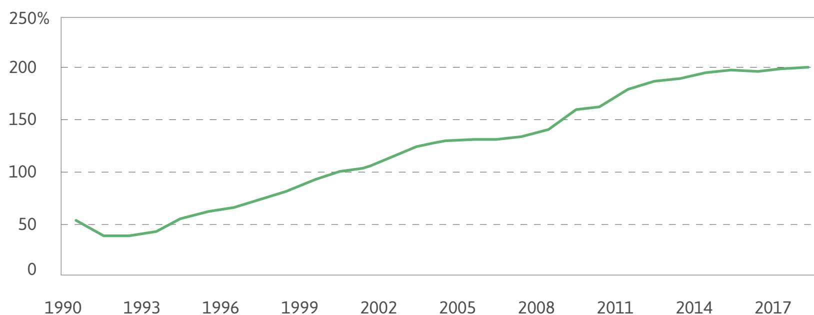
The United States is not Japan. It has a much more dynamic economy, better demographic trends, and an unmatched history of creativity and innovation in business and technology. The U.S. dollar is unlikely to surrender its position as the global reserve currency, either, as each contender – the euro, yen, pound and Chinese renminbi – has limitations of one sort or another. The United States retains a privileged position because foreign governments and companies continually need its dollars, which helps fund the ever-growing fiscal debt.

And yet, the U.S. dollar has not always been the reserve currency. It replaced the British pound in the 1940s and will probably be replaced one day by something else. Washington's unceasing profligacy, spending vast sums of money it doesn't have, likely hastens that day.

MMT is alluring. Spending well beyond the country's means has produced no negative consequences in this economic cycle. So why not keep doing it, and then some? After all, loss of faith in the U.S. economy and the U.S. dollar is not imminent, and is only likely to occur gradually over decades. The reason is that a precise tipping point is impossible to anticipate. An explicit MMT policy, imprudently implemented, could accelerate an erosion of confidence with little warning, depressing growth and market returns, leaving a severely indebted and enfeebled economy that may no longer respond to traditional methods of reviving it. As with other promises of something for nothing, the benefits of MMT, should it ever be fully converted from theory to practice, are likely to be far less than its advocates expect, and they could come at a prohibitively high cost. There really is no free lunch; someone always brings the bill.

Japan's debt helps funds government spending

Central government debt, total (% of GDP) for Japan



Note: Total central government debt as a percentage of GDP.
Source: Federal Reserve Economic Data - January 1, 2019.

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Investing in Private Real Estate

By Stephanie Hackett

Private real estate has long been the preserve of institutional investors, with allocations to the asset class growing to all-time highs this year.[1] Now, high net worth investors have taken notice and are moving into the space. Recently enacted tax incentives for real estate investments in specific areas identified by the federal government, called Qualified Opportunity Zones, or QOZs, may accelerate interest among high net worth investors in adding private real estate to portfolios.

Private real estate offers the prospect of attractive risk-adjusted returns. Including 2004-2006 vintage funds, which weathered the bulk of the financial crisis, private real estate funds have an average net internal rate of return, or IRR, of 7.5% since 1993.[2] Top quartile managers, the type of managers to which Evercore Wealth Management strives to allocate, typically return an additional 5.5% IRR above the average by vintage year.[2] These investments also provide an uncorrelated benefit against other assets in a typical investor's portfolio, providing diversification. For example, the performance and valuation of a multifamily property in Atlanta has little to do with the performance and valuation of Apple stock. Diversification provided within the asset class is deep, as investors can invest across geographies, property types (office, multifamily housing, retail or industrial), and transaction sizes. And real estate has the potential to act as an inflation hedge, as rents are typically periodically adjusted to account for inflation.

When investing in private real estate, strong fund manager experience is crucial. A private real estate fund manager should have experience through multiple economic cycles, have a detailed knowledge of individual property characteristics, and possess the ability to capitalize on both broad and local market trends.

The private real estate market can be roughly broken up into three risk-return segments: Core/Core-Plus, Value-Add, and Development and Opportunistic.

Core/Core-Plus: This is the lowest risk segment of the market. The investment properties are stabilized, fully leased, and are typically located in major markets. Properties are often leased long term by high-quality tenants in desirable locations. Investments generate mostly predictable current income as opposed to capital appreciation. Target returns range from 6% to 10%, depending on the level of leverage used.

Value-Add: These are existing real estate properties that need light to moderate capital investment and/or market repositioning, usually applying

a moderate amount of leverage, to improve rental rates and occupancy. Returns come in the form of a combination of increased cash flow and capital appreciation. Target returns for value-add real estate are 10%-15%. The value-add real estate space remains attractive in this investment environment, as skilled managers can find unique property improvement opportunities.

Development and Opportunistic: This segment of private equity real estate generally has the highest risk and therefore the highest return potential. Ground-up development, redevelopment, significant repositioning, special situations, and distressed investments are all categorized under opportunistic real estate. Managers take advantage of undeveloped land, undercapitalized assets, inefficient markets and information scarcity. Expected returns for opportunistic investments are 15% and more.

Minding Your QOZs: Rules on Timing & Implementation[3]

1. An investor has 180 days after the sale of an asset to roll the capital gains into a Qualified Opportunity Fund, or QOF. The investor defers paying the capital gains tax on the reinvested earnings.
2. The QOF manager has 30 months to develop or redevelop the QOZ property, and is required to substantially improve the property by making a further investment into the property to double the adjusted basis (excluding cost of the land).
3. If the investment in the QOF is made prior to the end of year 2019 and is held for seven years through December 2026, the investor receives a step-up in basis of 15%. If the investment is made prior to the end of year 2021 and is held for five years through December 2026, the step-up in basis is 10%. (Investments in QOFs made after 2021 will still defer payment of the capital gains tax until 2026, but will not receive a step-up in basis.)
4. In 2026 the investor pays the capital gains tax on the amount that was deferred (taxes likely due April 15, 2027).
5. After 10 years, investor pays no capital gains tax on the appreciation earned on their QOF investment. The investor is still responsible for taxes on the income from the properties, although a portion may be shielded by depreciation of the real estate asset.

Over 8,700 distressed and low-income areas across the United States have been designated as QOZs in connection with the Tax Cuts and Jobs Act of 2017, to encourage long-term economic development and revitalization in underdeveloped communities. Investors in QOZs may qualify for multiple tax benefits:

- Temporary deferral of capital gains tax from other investments (short- and long-term gains on the sale of stocks, bonds, mutual funds, property, and interests in partnerships)
- Partial step-up in basis of the capital gains invested into a QOZ, based on the length of the holding period
- Tax-free growth of the QOZ investment if held for at least 10 years

Assets within a QOZ must be put to new use or be substantially improved by investing at least the amount of the purchase price to further develop the site. For this reason, most QOZ investments will be in new *development* (ground-up construction) or in properties that need significant capital for redevelopment or repositioning. Managers of QOZ funds will develop and manage the QOZ properties over a 10+ year period; therefore many QOZ investments will start out as development projects but become stabilized *core/core-plus* assets over time. For this reason we prefer QOZ managers, such as CIM Group's "build-to-core" strategy discussed on page 10, which are vertically integrated in-house, meaning that they have internal teams to conduct the development, construction management, leasing, and property management.

Investors considering a QOZ investment should consult with their tax advisor. As described above, the QOZ program has strict rules regarding the timing and implementation of investments in order to qualify for the tax incentives. The QOZ tax incentives can enhance after-tax returns for investors, as shown on page 11.

Stephanie Hackett is a Partner and Portfolio Manager at Evercore Wealth Management. She can be contacted at stephanie.hackett@evercore.com. **Jake Stoiber** contributed to this article.

[1] Hodes Weill 2018 Institutional Real Estate Allocations Monitor.
[2] Cambridge Associates. Real Estate Index and Benchmark Statistics. December 31, 2018.
[3] Evercore's research and recommendation is based on current QOZ proposed regulations released April 17, 2019 (Internal Revenue Service – www.irs.gov [IRC Section 1400Z-2]). An initial set of proposed regulations issued in October 2018 were also reviewed. Final regulations from IRS have not yet been issued. This information is not to be construed as tax advice; please consult your tax advisor prior to investing regarding your specific tax consequences.

Q&A
with CIM Group

Sean Morris

Editor's note: Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm's asset classes. CIM Group, a community-focused real estate and infrastructure owner, operator and lender, launched a $5 billion opportunity fund earlier this year to take advantage of the federal Qualified Opportunity Zone program. Here we interview Sean Morris, who leads the CIM Private Wealth Partners Group.

Q: CIM has a 25-year history of developing properties in urban areas undergoing a transition or revitalization, including many now designated as Qualified Opportunity Zones. What do you think the impact of these designations will be – on your business and on those communities?

A: CIM has been a developer, owner, operator and lender in underserved urban communities for over 25 years. Over half of the communities that we have internally qualified for investment contain Opportunity Zones. CIM currently controls over $4 billion of assets in these areas through vehicles launched prior to the Opportunity Zone legislation. We have long-standing relationships, established community support, and an actionable pipeline of investments. CIM's community relationships, combined with our vertically integrated capabilities – in particular our in-house development capability – allow us to be one of the few managers that can effectively develop assets across geographies in underserved, densely populated communities throughout the United States.

Q: What makes a community attractive from an investment point of view?

A: Our unique community qualification process has always served as the foundation for our investment strategy. We target high barrier-to-entry markets/submarkets with high population density and undertake rigorous research before qualifying these communities for potential acquisitions. The qualification process may take anywhere between six months to up to five years. Since 1994, the firm has qualified 122 communities in high barrier-to-entry markets and has deployed capital in 72 of them.

Some of CIM's criteria for qualifying communities include: 1) strong evidence of population and income level growth, 2) broad community/government support for our approach to development, 3) evidence of investments from other private investors, 4) underserved niches in the community's real estate infrastructure, 5) opportunities below intrinsic values, and 6) potential to deploy at least $100 million of CIM-managed capital within five years.

Q: How do you determine what types of properties (office, retail, multifamily housing and restaurants) to develop within each community?

A: CIM has extensive experience developing, owning and operating a diverse range of asset types, including retail, residential, office, parking, hotel, signage, mixed-use and

Investment Examples for $1 Million in Capital Gains

Editor's note: Here's a comparison of investment scenarios over a 10+ year investment period, assuming an 8% annual return and a long-term capital gains tax of 23.8%.

	2019 Sale of Asset with $1m Gains		2026 Taxes Due on Deferred Gains in QOF*		2029 Divestment		Return Comparisons (8% Appreciation Rate)	
Scenario 1: Reinvest Gains onto QOF	Realized Gains Less Taxes Investable Capital	$1,000,000 ($ –) $1,000,000	Deferred taxes due Less 15% decrease* Net Taxes Due	$238,000 ($35,700) $202,300	Value of QOF at Exit Less Taxes **After-Tax Distribution**	$1,922,962 ($ –) **$1,922,962**	**After-Tax IRR: 6.8%**	**After-Tax Multiple: 1.9x**
Scenario 2: Reinvest Gain Proceeds into Investment Portfolio	Realized Gains Less Taxes Investable Capital	$1,000,000 ($238,000) $762,000	N/A	N/A	Value at Exit Less Taxes **After-Tax Distribution**	$1,645,101 ($201,178) **$1,434,923**	**After-Tax IRR: 3.7%**	**After-Tax Multiple: 1.4x**
Scenario 3: No Sale of Investment for 10 Years	Investable Capital	$1,000,000	N/A	N/A	Value at Exit Less Taxes **After-Tax Distribution**	$2,158,925 ($513,824) **$1,646,101**	**After-Tax IRR: 5.1%**	**After-Tax Multiple: 1.6x**

* Assumes investment in QOF made by end of year 2019.
For illustrative purpose only. This information is not to be construed as tax advice, please consult your tax advisor regarding your specific tax consequences. All scenarios assume that no taxable income is generated during the holding period.

other real assets. We therefore do not have any asset class limitations to our development capability. That said, our experience with multiple asset types does not predispose us to select certain asset types over others. To determine what types of properties to develop, we look back to the community, conduct a comprehensive evaluation of the missing real estate infrastructure, and seek to fill underserved niches through developments. Aligning CIM's acquisition/development plans in a given market with that market's unfilled demand also helps us in mitigating risks in our projects.

Q: CIM is vertically integrated; managing the entire investment process as an owner, operator, lender and developer of property assets. What is the investment rationale for this unusual approach?

A: Being vertically integrated really sets us apart as a manager, especially in the Opportunity Zones space. We believe that having all capabilities in-house gives us some very clear advantages in executing our build-to-core strategy. It gives us an ability to leverage the expertise and market knowledge of different functions at every step of our investment process. It gives us complete control on the development process, which in turn minimizes execution-related risks. And it gives us the ability to leverage on the synergies between different functions to drive the business plan for the asset.

Q: Your investment approach and your geographic diversification require a team approach. Please describe your process.

A: The CIM investments group is led by a team of oversight principals that include the three co-founders of the firm. The group includes over 70 investment professionals located across our offices in Los Angeles, CA (headquarters); Oakland, CA; Bethesda, MD; and New York, NY.

Q: What are some examples of properties that would be included in the CIM QOZ fund?

A: CIM intends to build a diversified portfolio of assets; the fund's investments are expected to consist of assets related to infrastructure, multifamily residential, student housing, hotel, retail, office, industrial, storage, land, theater, media and parking infrastructure assets across Opportunity Zones located in our qualified communities in the United States. Currently we anticipate a portfolio allocation of 30% to office, 30% to residential, 30% to retail, and the remaining 10% to other real estate/infrastructure upon the stabilization of portfolio.

We have a warehoused investment opportunity in the fund – a 670 MW solar park in the Central Valley of California that is shovel-ready. The fund anticipates participating in the project as a co-investor alongside one of CIM's infrastructure funds. We are actively evaluating several other investment opportunities across CIM-qualified communities that have been designated as Opportunity Zones.

Q: Please describe the investment timelines. What should investors expect?

A: Our Opportunity Zone fund is a build-to-core strategy. What that really means is that the fund will be investing in ground-up/heavy repositioning projects, seeing them through their transition into stabilized assets, and then, instead of exiting, it will continue holding these investments over the long term. We expect to hold assets in the fund for at least 10-12 years, so that early investors in the fund can get the 10-year tax benefits of the Opportunity Zones program. We also have planned our open-ended fund structure to support investor redemptions subject to an initial lock-up of four years.

For further information about the CIM Opportunity Zone, L.P., and other funds on the Evercore Wealth Management investment platform, please contact **Stephanie Hackett** at stephanie.hackett@evercore.com.

Tax Reform and the Municipal Bond Market

By Howard Cure

The consequences – intended and not – of the Tax Cuts and Jobs Act of 2017, or TCJA, are rippling through the United States.

While the TCJA provided savings for most people, those in the top 1% income bracket of high-tax states experienced a tax increase. The drop in federal tax rates, the larger standard deduction and expanded tax credit, as well as the rollback of the alternative minimum tax and the ability of some wealthy individuals to take advantage of the tax deduction for owners of pass-through businesses, has helped to mitigate the blow.

Editor's note: This is an extract from the report, *Federal Tax Reform and the Municipal Bond Market*, published in July by Evercore Wealth Management. The full report can be viewed at evercorewealthandtrust.com.

However, while the TCJA has not generally increased the overall tax burden for individuals, it has further skewed the relative burden between high- and low-tax states. The chart below highlights states that are particularly affected by the cap on state and local taxes (California, New Jersey, New York, Connecticut, and Minnesota) and the no-income tax state of Florida.

There has not yet been an exodus of citizens of higher tax states to lower tax states as a result of the TCJA. Job opportunities and demographic trends are much more influential on migration patterns than tax rates for most people, excluding retirees. It should be noted that 2018 was the first year that people filed their taxes with the state and local tax (SALT) cap in place, so it is still hard to know what the ultimate effects will be. Also, it remains to be seen whether the SALT cap will have a negative impact upon property values in high-tax states, which would severely impair local municipal finances.

In the municipal bond market, there has been a further shift away from corporate holders of municipal debt (traditionally banks and property and casualty insurance companies) toward individuals seeking one of the last refuges for tax exemption. This, in combination with an improving state fiscal outlook, has resulted in tightening credit spreads.

Impact by State of the TCJA for Top 1% Income Group

STATE	RICHEST 1% BY INCOME	FAMILY AND INDIVIDUALS AVERAGE TAX (+ INCREASE/- DECREASE)
California	**$1,054,600 or >**	**+$70,840**
New Jersey	**$1,120,400 or >**	**+$45,550**
New York	**$1,049,100 or >**	**+$77,900**
Connecticut	**$1,134,000 or >**	**+$37,710**
Florida	**$802,600 or >**	**-$21,880**
Minnesota	**$691,900 or >**	**+11,800**

Howard Cure is the Director of Municipal Bond Research at Evercore Wealth Management. He can be contacted at cure@evercore.com.

What Happened to Value Investing?

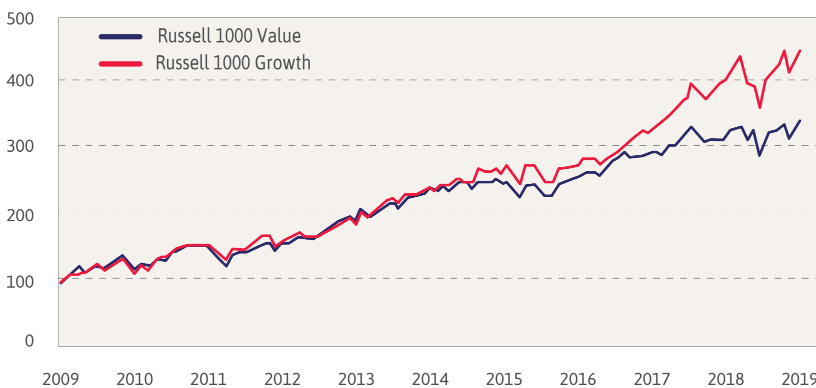
By Aldo Palles

Many investors are understandably questioning the merits of value investing. For 10 years, the approach – picking stocks that appear to be trading for less than their perceived intrinsic value – has failed to keep pace with investing for growth. And the gap has been widening, as illustrated in the chart below.

The Russell 1000 Value Index has averaged a five-year annualized return of only 7.5%, little more than half the 13.4% corresponding return on the Russell 1000 Growth Index. A $10,000 investment made in 2014 in value stocks, as measured by the index, is now worth $14,330, or almost 25% less than the $18,744 cumulative return on the same $10,000 investment in the stocks of companies expected to grow more rapidly than their sector or the overall market.

Growth vs. Value Total Return

Performance of Russell 1000 Growth vs. Russell 1000 Value



Note: Indexed to 100 at 6/30/2009.
Source: Bloomberg – June 30, 2019.

Some of the discrepancy between value and growth performance can be attributed to differences in the underlying industry weightings comprising each index. The Russell 1000 Value Index has only a 5.9% weighting to information technology, compared with a 37.3% weighting in the growth index. Large-cap technology stocks, such as Amazon, Apple and Microsoft, have been among the best performing stocks since the 2009 financial crisis low.

Similarly, financial and energy stocks account for 23.4% and 9.2%, respectively, of the Russell 1000 Value Index. Many financial stocks have recovered from their financial crisis nadirs in 2009 but have struggled to appreciate due to stricter capital requirements, heightened regulatory oversight and low interest rates. Although the United States is now a major exporter of energy, the energy industry as a whole continues to struggle with profitability due to excessive supply relative to global demand. In contrast, financial stocks account for 3.2% and energy stocks just 0.4% of the Russell 1000 Growth Index.

Although the differences in industry weightings explain the disparity in investment performance between these two popular indices, it does not address the full scope of underperformance at the individual stock level. Value stocks are underperforming growth stocks for both secular, or long-term, and cyclical, or short-term, reasons.

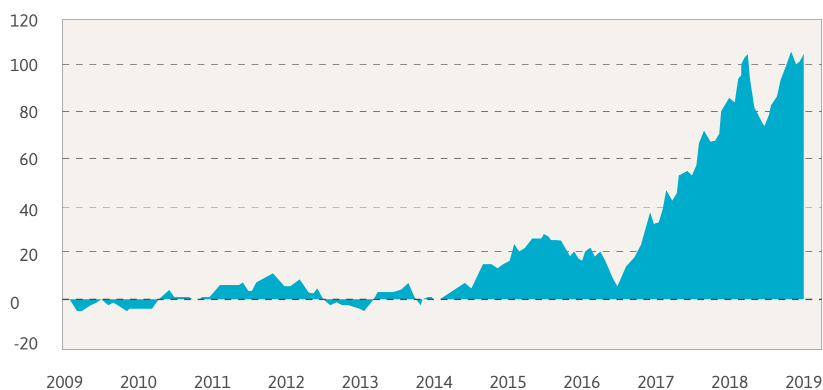
On the secular front, many industries have been subjected to increasing disruption from technological innovation over the past decade. Technological disruption comes in many forms, including innovative products and services, alternative distribution channels, and reduced barriers to entry for new competitors. Examples of disruptive technological innovations include e-commerce, enhanced connectivity through social media and the Internet of Things, artificial intelligence and machine learning, robotics, electric and autonomous vehicles, cloud computing, blockchain technology, and the coming introduction of 5G wireless communications networks. Many industries, including retail, media, advertising, manufacturing and financial services, are transforming as a result of these disruptive forces. Technological innovations will continue to exert a powerful influence on these and other industries for the foreseeable future.

At the same time, changing consumer preferences, particularly among Millennials, has adversely affected many legacy businesses with well-established brands. As a group, Millennials demonstrate less loyalty to existing brands and a greater willingness to change consumption patterns. Frequent switching by consumers to new products and services based on near-instant and continuous feedback from social media networks is increasingly the norm.

Cyclical forces have also pressured stocks in many industries. Many companies within the traditional value sectors of manufacturing, shipping, banking and energy are facing near-term pressures as a result of weakening global economic growth, low interest rates, trade uncertainties and other geopolitical concerns. However, unlike secular forces, cyclical forces are short term and can be reversed with improved geopolitical conditions and pro-growth economic policies.

Cumulative Difference in Total Return

Russell 1000 Growth vs. Russell 1000 Value



Source: Bloomberg – June 30, 2019.

So, is this the time to sell growth companies and replace them with underperforming value stocks? Not necessarily. When assessing individual companies, focusing just on distinctions between growth and value is often misguided. As Warren Buffett noted years ago, "Growth is always a component in the calculation of value, constituting a variable whose importance can range from negligible to enormous and whose impact can be negative as well as positive."[1] We agree.

Our investment approach at Evercore Wealth Management is informed by elements of both value and growth. We are long-term, fundamental investors, analyzing each prospective equity investment on its own terms to develop an understanding of how the business operates, how profits are generated, and whether those profits are utilized to benefit shareholders. Our goal is to determine what we think a business is worth today and what we believe it could be worth in the future. We seek out attractively valued companies benefiting from positive catalysts for change. At the same time, we avoid purchasing low-quality businesses simply because they are historically cheap. Cheap doesn't mean they won't get cheaper still.

Identifying high-quality companies with durable competitive advantages, sustainable economics, and innovative business models that deliver compelling value will be key in this rapidly changing investment landscape.

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[1] Berkshire Hathaway letter to shareholders, 1992.

Gifting: Time to Accelerate Plans?

By Ross Saia

Giving away thousands, even millions, of dollars may be money well spent. Strategic gifting in the current tax climate can minimize federal and state transfer taxes, maximize the transfer of wealth to future generations, and protect family assets.

Readiness – of donors to make gifts, and recipients to receive and/or inherit – is the biggest caveat in making sizable gifts, and the subject of a number of articles in *Independent Thinking*. Our focus here is on timing. The elections next year may pave the way for new tax legislation that could reduce the current $11.4 million basic exclusion amount, the maximum an

individual can gift free of federal estate and gift tax ($22.8 million for married couples). Tax law changes could also affect federal estate, gift and generation-skipping taxes, which are currently set at a 40% rate.

It's worth noting in 2005 the lifetime gift tax exclusion and estate tax exclusion amounts (not yet unified) were just $1 million and $1.5 million, respectively, as illustrated in the chart here.

In any event, the current $11.4 million exclusion amount is scheduled to expire on December 31, 2025, when it will revert to $5 million, plus adjustments for inflation. The IRS has promised that individuals making gifts and taking advantage of the current exclusion amount will not be adversely impacted after 2025. In other words, there won't be a clawback.

So, for those considering making lifetime gifts in excess of $5 million, the tax cost of mistiming the gifts could be substantial. Every million dollars not sheltered by exclusion will be subject to a $400,000 federal transfer tax (at current rates). An $11 million gift made today would not result in any federal gift tax. That same gift made in 2026 (or possibly sooner should the political landscape change post-election) could result in a tax exceeding $2 million. Further, since all future growth on gifts occurs outside of the estate and is therefore not subject to estate tax at the donor's death, the real benefits for future generations is potentially far greater still.

In addition to the basic exclusion amount, a number of other current IRS gift tax exclusions should be considered in planning for optimal transfer tax efficiency. These include the annual gift tax exclusion, the gift tax medical exclusion, and the gift tax educational exclusion, each defined on page 18.

Through the use of trusts, many of these gifting exclusions can be enhanced to provide further asset protection and/or allow the grantor to dictate how and when gifted funds are eventually spent by the recipient. In addition, valuation discounts may be used when gifting minority interests to compensate for their lack of marketability and control. Assets gifted during the grantor's lifetime will lose the benefit of the step-up in basis at death, so careful consideration should always be given to the acquisition cost and nature of the gift (whether cash, stock, real estate, business interests, forgiveness of debt or privately held securities).

Let's consider the options available to the Piras family, a couple with two adult daughters, one married with two children and the other single. The family recently moved to Florida from New Jersey, so state transfer taxes are not an issue, thanks to Florida's favorable tax regime. They have

Taxes are certain; future rates aren't

Tax law changes could affect exclusions and estate, gift and generation-skipping taxes.

Year	Estate and GST Tax Exclusion	Lifetime Gift Tax Exclusion	Annual Gift Tax Exclusion	Estate, GST and Gift Tax Rate
2005	$1.5 million	$1 million	$11,000	47%
2006	$2.0 million	$1 million	$12,000	46%
2007	$2.0 million	$1 million	$12,000	45%
2008	$2.0 million	$1 million	$12,000	45%
2009	$3.5 million	$1 million	$13,000	45%
2010	N/A	$1 million	$13,000	35% or 0%
2011	$5.0 million	$5 million	$13,000	35%
2012	$5.12 million	$5.12 million	$13,000	35%
2013	$5.25 million	$5.25 million	$14,000	40%
2014	$5.34 million	$5.34 million	$14,000	40%
2015	$5.43 million	$5.43 million	$14,000	40%
2016	$5.45 million	$5.45 million	$14,000	40%
2017	$5.49 million	$5.49 million	$14,000	40%
2018	$11.18 million	$11.18 million	$15,000	40%
2019	$11.4 million	$11.4 million	$15,000	40%

The Tax Cuts And Jobs Act expires in 2025.
Source: Internal Revenue Service.

The Fundamentals: Other Gift Tax Exclusions

In addition to the basic exclusion amount, the Internal Revenue Service provides for a number of other gift tax exclusions. Here are three of the most useful.

Annual exclusion:
Grantors can give $15,000 per year ($30,000 per married couple) to any individual in 2019 without gift and estate tax implications. For individuals who anticipate having a taxable estate, annual exclusion gifting to family members is a simple and often remarkably effective way to maximize the amount of wealth passed to the next generation. If relinquishing control is a concern, a properly drafted trust can effectively meet the present interest eligibility requirement, as well as offer the grantor control limitations.

Medical exclusion:
Payments made directly to an institution that provides medical care to an individual, or to a company that provides medical insurance to an individual, qualify for the unlimited medical gift tax exclusion. To maximize this opportunity, grantors can pay all qualifying medical expenses and medical insurance premiums for descendants. The unlimited medical exclusion does not apply to amounts paid for medical care that are reimbursed by insurance, or for most forms of cosmetic surgery.

Educational exclusion:
Payments made directly to a qualifying educational organization as tuition for the education of an individual qualify for the unlimited gift tax exclusion. (See the article by Ashley Ferriello on page 19.) To maximize this opportunity, consider directly paying all tuition expenses for children and grandchildren. As is also the case with the medical exclusion, the tuition exclusion does not impede an individual's ability to take advantage of the annual exclusion and gift $15,000 per year. The IRS has also approved prepaying tuition for future years, as long as the prepayments were not subject to refund. Books, supplies, dormitory fees, board or other similar expenses that do not constitute direct tuition costs are not included.

Families should consult their Evercore Wealth Management and Evercore Trust Company, N.A. Wealth & Fiduciary Advisors to discuss these and other planning options. – RS

a net worth of $40 million, most of which is concentrated in a rapidly appreciating private family business that they intend to eventually sell. Maximizing the amount they pass to their descendants is a priority, but relinquishing control prematurely is a concern.

The parents chose to fund a Dynasty trust to capitalize on the historically high exclusion amount and to optimize wealth transfer to future generations. They funded the trust with non-voting shares in their family business, which enabled them to retain control and benefit from a valuation discount. The trust was drafted to allow the parents to pay the income taxes it generates, even as the beneficiaries receive the income. If the business is sold while the parents are still living, they can pay the capital gains taxes on the sale proceeds. Alternatively, a mechanism in the trust agreement will allow them to opt out and let the trust pay the taxes. A properly drawn Dynasty trust can be extremely flexible and tax-efficient and can serve the family for generations.[1]

In addition to the Dynasty trust, the parents established Crummey trusts for their grandchildren, which will be funded each year with annual exclusion gifts. Crummey trusts have a temporary and limited withdrawal feature that allows the gifts to qualify as a present interest. Without that provision, the gift amount would chip away at their basic lifetime gift tax exclusion amount.[2]

Readiness should be the determining factor in making substantial gifts, a subject that can be discussed in depth with trusted advisors. Families that are truly prepared may wish to accelerate their wealth transfer plans, given this tax and political environment.

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[1] A Dynasty trust is a long-term trust created to pass wealth from generation to generation without incurring transfer taxes for as long as the assets remain in the trust. Properly designed, it can last for many generations, theoretically forever.
[2] A Crummey trust can take advantage of the gift tax exclusion when transferring money or assets to another person, while retaining the option to place limitations on access to the money.

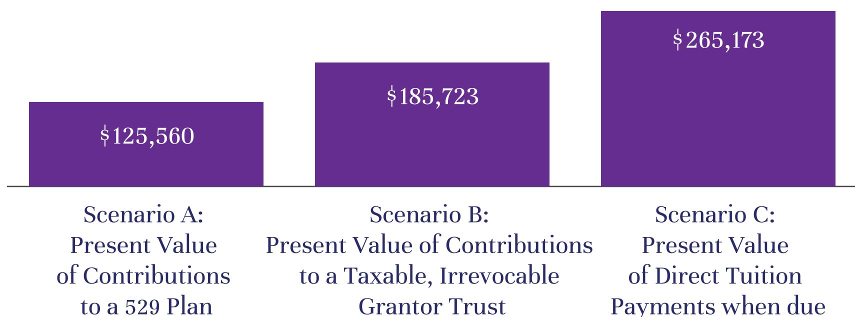
529 Plans and the Alternatives

By Ashley Ferriello

As the cost of an education at a private college continues to outstrip inflation[1], funding a 529 plan can make good sense. However, investors will want to first examine both the tax advantages and the constraints, as well as the alternatives.

A 529 plan is a state-sponsored education savings account. Contributions can be invested, and earnings growth is free from federal and state taxes to the extent that proceeds are used toward qualified college expenses. (Some states now also allow up to $10,000 per year toward K-12 tuition.) While contributions are not federally tax deductible, several states offer a full or partial tax deduction when a donor uses an in-state plan.

Present Value of Out-of-Pocket Costs



Source: College Board. Chart Assumptions: The beneficiary will attend a four-year college in 18 years. Education costs are $50,000 per year in today's dollars with a 4.5% inflation rate. Present value was calculated using a 3% discount rate. Scenario A assumes a 7% pre-tax total return on 529 plan balance; all proceeds are used for qualified expenses. Scenario B assumes a 7% pretax total return on balance, the trust pays the taxes (ordinary income tax rate at 37% federal and 5% state; long-term capital gain tax rate at 20% federal, 5% state). Scenario C assumes the donor pays the tuition directly to the educational institution when due.

Let's consider three options for parents, grandparents or others who wish to set aside funds for a child's education: funding a 529 plan early; creating and funding an irrevocable grantor trust; or paying the tuition directly when payment is due under the unlimited educational gift tax exclusion.

> *529 plan tax savings can be considerable*

FUNDING A 529 PLAN

Pros: The tax benefits can be considerable. In addition, the IRS allows investors to frontload the account by contributing five years of annual exclusion gifts upfront ($15,000 per year, per beneficiary, for a total of $75,000 per beneficiary; married couples can fund up to $150,000). While this type of gift hinders the donor's ability to make annual exclusion gifts to the plan beneficiary over the next five-year period, there can be emotional value in segregating savings for such a large, looming expense. The donor retains control over the 529 plan account; the investment fees are generally pretty low; and any excess funds can be redirected to another family member beneficiary.

Cons: The tax benefits only work if the beneficiary goes to college and has qualified educational expenses (see chart on page 21 for specific details). Otherwise a tax on earnings and a 10% penalty are due on withdrawals. Further, investment options can be somewhat limited, depending on the plan.

> *Education funding is not a one-size-fits-all solution*

FUNDING AN IRREVOCABLE GRANTOR TRUST

Pros: This approach can offer access to more investment opportunities, as well as the flexibility to apply funds to educational or non-educational purposes, as stipulated in the trust agreement, thereby avoiding the potential penalties otherwise due in a 529 plan arrangement. Grantors often choose to leverage the gift by paying taxes on behalf of the trust, which allows the trust assets to compound tax-free to support the current beneficiary or grow for the next generation. An irrevocable trust can also provide asset protection for the beneficiary. The trust term can last as long as the donor specifies subject to state law requirements.

Cons: Irrevocable trusts have administrative costs; the trust terms cannot be changed or revoked; and the investment income and gains are taxable.

PAYING THE TUITION DIRECTLY

Pros: This can make sense for those who wish to maximize the use of their estate tax exclusions. Some individuals may choose to make annual exclusion gifts to a trust or other savings vehicle during a beneficiary's life *and* make direct tuition payments when due under the unlimited educational gift tax exclusion. (It's important to note that 529 plan contributions do not qualify for the unlimited educational gift tax exclusion.) This approach allows for additional tax-free wealth transfer, as well as flexibility over investments and expenses.

Cons: There can be financial and emotional risks in not pre-funding education costs.

Education funding is not a one-size-fits-all solution. Thoughtful consideration and planning should address each family's unique circumstances.

Ashley Ferriello is a Managing Director and Wealth & Fiduciary Advisor at Evercore Wealth Management and Evercore Trust Company, N.A. She can be contacted at ferriello@evercore.com.

Homework for Young Adults:

Some important paperwork comes with adulthood. In addition to registering to vote and, for males, registering for Selective Service, young adults age 18 and over – and their parents – should consider creating the following documents before leaving home.

- **Health Care Proxy:** In many states, parents do not have the legal right to make health care decisions for their children once they are 18 years old without going to court. Consider drafting a health care proxy in order to appoint parents, a family member or a close friend to make medical decisions for the student should he/she become incapacitated or otherwise unable to make those personal decisions. Be sure to include HIPAA authorizations as applicable.
- **Power of Attorney:** As above, many parents will be limited on what they can do in terms of legal and financial decisions for their child once they are 18 years old. Consider drafting a power of attorney in order to appoint an agent to step in.
- **Family Educational Rights and Privacy Act of 1974 (FERPA) Form:** FERPA is a federal law that protects student education records. Once the student is 18 years old, even if the parent continues to pay for the education, the school is not required or allowed to release the grades or other educational records to parents. Adult children and their parents can consider filling out the particular school's form to allow the parents access to the records.

Common Questions and Concerns about 529 Plans

Question	Answer
What are "qualified expenses" for a 529 plan?	Qualified expenses include eligible undergraduate, graduate and professional school tuition, fees, books, supplies, computers, internet access, room and board if the student is enrolled at least half-time, and special needs equipment. Off-campus housing is qualified up to the amount that is included in the college's "cost of attendance" figures. The 2017 tax reform broadened qualified expenses to include up to $10,000 per year toward K-12 private, public or parochial schools, but not all states allow this.
What are examples of "non-qualified expenses" for a 529 plan?	Transportation costs, health insurance, college application and testing fees, extracurricular activity fees, and student loan payments.
How are study abroad expenses treated by a 529 plan?	A study abroad program qualifies, assuming it is offered at a foreign university through a U.S. college or university that is eligible for Title IV federal student aid, and the U.S. college or university accepts the foreign university program credits. For students attending a foreign university full-time, the foreign university simply needs to be eligible for Title IV federal student aid.
What is the penalty for using funds for non-qualified expenses and/or terminating the 529 plan account?	Tax will be due on the earnings portion of the non-qualified distribution or termination plus a 10% penalty.
How much should I contribute to a 529 plan?	To maximize transfer tax exclusions, a donor can gift up to the annual exclusion limit of $15,000 per 529 plan beneficiary ($30,000 for married couples). The IRS allows "superfunding," defined as funding the 529 plan with five years of annual exclusion gifts upfront: $75,000 per beneficiary ($150,000 for married couples). It should be noted that this hinders the donor's ability to make gifts directly to the plan beneficiary other than direct payment of tuition or medical expenses. The total contribution amount is unique to circumstances and a funding analysis should be prepared by a wealth advisor.
What if I have leftover funds in the 529 plan account, another relative or friend covers the cost, or if the child decides not to attend a qualified college or university?	To avoid paying tax on the earnings and the 10% penalty, change the beneficiary to another qualifying family member, or even make yourself the beneficiary. There are few exceptions to avoid the 10% penalty (but not the tax). Those include: The beneficiary receives a tax-free scholarship, attends a U.S. Military Academy, dies or becomes disabled.
What happens if I am no longer able to manage the 529 plan account myself?	Donors can name a successor account owner to manage the 529 plan account in the event of death or incapacitation.
Is a 529 plan value includible in my estate?	The 529 plan account is excluded from estate tax calculations, but the owner still retains full control.
Would the 529 plan value impact the student's financial aid eligibility?	If the owner/controller of the 529 plan is the student or the student's parent, the account would be counted as an asset and could impact the student's eligibility for financial aid. If the owner/controller is a grandparent or someone else, the funds would not impact eligibility for financial aid.
Do I need to open a 529 plan in the state where I live or where the beneficiary lives?	The choice of plan has no relationship to where the donor lives (with the exception of the state income tax deduction), where the beneficiary lives or where the beneficiary will attend school. When choosing a plan, it's important to be mindful of each plan's investment options and expense ratios. In some cases, the long-term financial benefit of a low expense ratio can be greater than the state tax deduction. In those cases, it can make sense to establish an out-of-state plan.

[1] Source: https://trends.collegeboard.org/sites/default/files/2018-trends-in-college-pricing.pdf. Growth rate adjusted for U.S. dollar inflation.

Florida Bound: Moving to a Warmer [Tax] Climate

By Helena Jonassen

When the Beatles released *Taxman* in 1966, the band members were subject to tax surcharges as high as 98 percent. Within a few years, the Rolling Stones, the Kinks (who wrote *Sunny Afternoon*, another song about the surprisingly rock 'n roll subject of tax), David Bowie, Cat Stevens, and many others had fled Britain. Americans have never had that option. Unlike those of all other developed countries, citizens and permanent residents of the United States are taxed on worldwide income.

Tax exile in the United States tends to be a domestic affair, as families move from high-tax to low-tax or no-tax states. The differences can be startling – 8.82% personal income tax and up to 16% in estate tax in New York; none in Florida – as illustrated in the sample charts on page 23. Just how important a role personal tax plays in these moves is difficult to measure, as Howard Cure notes on page 13. The real drivers can, of course, include corporate tax advantages, the climate, and recreational interests.

In any case, the tax angle can be a headache. State taxing authorities are increasingly aggressive in challenging moves. Each state has its own rules on whether a taxpayer is subject to their income tax, but most include a count of how many days the self-declared former resident spends in his or her former domicile, with six months the general line in the sand. In New York, which is losing tens of thousands of people to Florida each year, more than to any other state, according to the U.S. Census Bureau, a person is still considered a resident for income tax purposes if he or she spends 183 days or more in the state.

> *The more substantial the property, the more intense the scrutiny*

While the terms *residence* and *domicile* are often used interchangeably, they have very specific meanings for both income tax and estate tax purposes, as defined by individual state laws. Residence simply requires physical presence in a state, while domicile requires physical presence in the state and the intent to make that state the fixed or permanent residence. While a person can have a residence in many places, as a general rule, they can only have one domicile.

The more substantial the retained property, the more intense the scrutiny is likely to be. Where are the people and objects that are considered near and dear to the taxpayer? Business and family relationships, children's school attendance, credit card receipts, travel documents, E-Z pass transactions, phone records, vet bills and more; name it and state authorities have probably thought to examine it to verify the taxpayer's assertions.

The burden of proof falls on the taxpayer, not on the state. The individual must be able to show that not only has he or she spent the required time out of the state at another residence but also that the intention is clearly to change the domicile. While there is no bright line test that determines domicile, individuals can draw on all of the same materials in their defense, in the event of a residency audit. Location apps, which use cellular network, Wi-Fi, and GPS technology to determine location, can augment hard evidence.

It should be noted that there is no double jeopardy when it comes taxation. More than one state could claim that a taxpayer is resident for income tax purposes and likewise could claim that a decedent was domiciled in the state for estate tax purposes. While these instances are rare, residency audits are not – and they are nothing to sing about. Taxpayers who wish to change domicile – for whatever reason or combination of reasons – should follow a clear protocol (see the checklist page 24), be mindful of the potential traps, keep meticulous records, and seek expert advice.

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Highest Marginal Imposed State Estate Tax Rate

State	Highest Marginal Imposed State Estate Tax Rate	Effective State Estate Tax Rate
California	0%	0%
Connecticut	12%	7.2%
Maryland	16%	9.6%
Massachusetts	16%	9.6%
Minnesota	16%	9.6%
New York	16%	9.6%
Florida	0%	0%

Source: Evercore Wealth Management

Sample State Income Tax Comparative

State	Highest Marginal State Income Tax Rate
California	13.3%
Connecticut	6.99%
Maryland	5.75%
Massachusetts	5.05%
Minnesota	9.85%
New York (state only)	8.82%
Florida	0%

Source: Evercore Wealth Management

Moving to Florida? A Before-Takeoff Checklist:

The Road to a Florida Domicile

Action	Date Completed
File a Declaration of Domicile (not required, but worth doing)	
Obtain a Florida driver's license and relinquish the other state license	
Register automobiles, boats and other vehicles in Florida and relinquish other state registrations and other state privileges (e.g., parking exemptions, resident fishing and hunting licenses)	
Register to vote and then vote in Florida; notify voting officials of the previous residence	
Update estate planning documents to conform with Florida law and declare Florida as the residence	
List Florida as the residence in all deeds and other documents	
Receive mail at the Florida address	
Open a Florida bank account, change credit card accounts to the new address	
Notify the IRS of the address change; use the Florida address in filing the federal income tax return and, if possible, file final tax returns in the state of previous residence	
File as a nonresident tax return, rather than a resident return, as needed, (e.g., New York income tax return if there is New York income)	
Apply for the Florida Homestead Exemption	
Notify the Social Security Administration of the change of address	
Renew passports in Florida	
Register the Florida address as the primary residence with insurance companies and Medicare	
Obtain a safe deposit box in Florida and move valuables to Florida	
Consider acquiring a larger or more expensive home in Florida, or remodeling or redecorating it, and acquiring a smaller or less expensive home, and document any steps taken in doing so	
Transfer works of art, expensive furniture, heirlooms, and other valuable or sentimental personal items to Florida	
License pets in Florida	
Direct all income, pension, dividend and interest checks and other payments to the Florida address or deposited into a Florida bank account	
Notify social clubs of the Florida address for their membership rolls; affiliate with Florida organizations	
Host family gatherings and social activities in Florida	
Stay in Florida as long as practically possible each year	
Use the Florida residence/address whenever possible (such as when registering at a hotel)	
Consider acquiring cemetery plots in Florida	
If move is recommended by a physician due to health concerns, the physician should document the medical issues accordingly	
Consider using Florida professionals	
Abide by the statutory limit for residency (e.g., New York state) and document accordingly. Count your days in new domicile – staying there more than 183 days is very helpful, but staying out of the prior domicile more than 183 days is essential. Vacations count as time away from the new *and* old domiciles.	

Gray Divorce: Dividing Assets in Middle Age

By Jeff Maurer

Jeff and Mackenzie Bezos married in their 20s, probably without a thought for a prenuptial agreement, worked very hard, raised four children, and accumulated some wealth along the way. Now, in common with soaring numbers of middle-age and older Americans, they are ending their marriage.

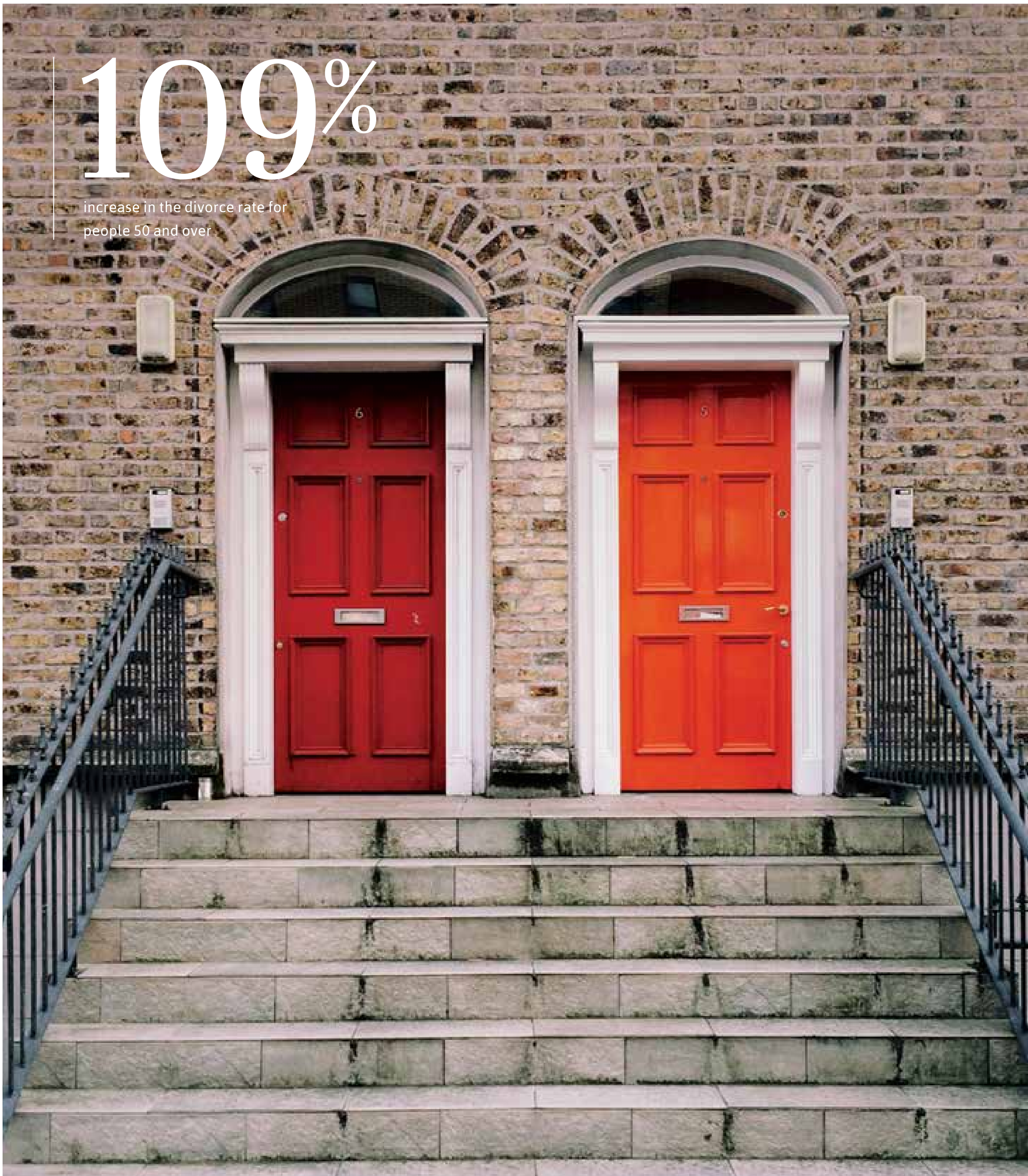
The rate for so-called gray divorces is soaring, even as the rate for the U.S. population as a whole declines, as illustrated in the charts on page 27. When we think about how much change Baby Boomers have experienced, it's perhaps not surprising that many marriages contracted in very different times aren't staying the distance. The vanguard of this enormous demographic, born in 1945, typically married young, at age 23 for men and 21 for women, according to the U.S. Census Bureau. Since those first Boomers' marriages in the 1960s, women have entered higher education and the workforce in record numbers, the number of children per family has declined (to 1.9 from 2.33), and lifespans have extended, especially for the high net worth. Along the way, our attitudes toward just about everything have changed too. Divorce, once taboo, has become commonplace.

That doesn't make it easy. The laws concerning property rights in divorce are complicated, and even those with the mildest seven- or 70-year itch should seek advice from a matrimonial attorney and wealth advisor. In the 40 states with equitable distribution, equitable doesn't always mean equal; courts can take property that was earned during the marriage and owned by one spouse and, along with all of the other assets, divide it in what they determine is a fair and equitable manner. In the 10 community property states, all property earned during the marriage is divided equally.

Marital laws vary from state to state. In some states, property brought by one spouse into the marriage or from inheritances or gifts received by one spouse during the marriage may or may not be treated as separate property. This is a growing issue as Baby Boomers inherit their own parents' assets. Taking joint possession of that much-loved family vacation home on the beach may be a cause for regret if the marriage doesn't survive the stresses of an empty nest and retirement. The best protection for marital property rules and state differences are properly drawn and executed pre- and post-nuptial agreements.

> *Equitable doesn't always mean equal.*

Discretionary trusts, again if properly drawn, also provide good protection for assets at risk, including from divorce. They aren't sacrosanct, as courts are increasingly considering


109%
increase in the divorce rate for people 50 and over

trusts in determining a division of assets, but they can provide a substantial line of defense. An independent trustee can determine who receives distributions of income and principal from the group of potential beneficiaries identified by the creator of the trust. Generally, the greater the latitude given to the trustee, the greater the degree of protection afforded the trust in a divorce. Also, trusts can be created decades before the beneficiaries contemplate marriage and consider – or fail to consider – the advisability of prenuptial agreements.

As wealth managers, we help our clients navigate life's transitions. For most high net worth and even ultra high net worth couples (if not the Bezos with their respective billions), dividing assets in middle age or later is a big adjustment, possibly the biggest financial drawdown that any of us could experience.

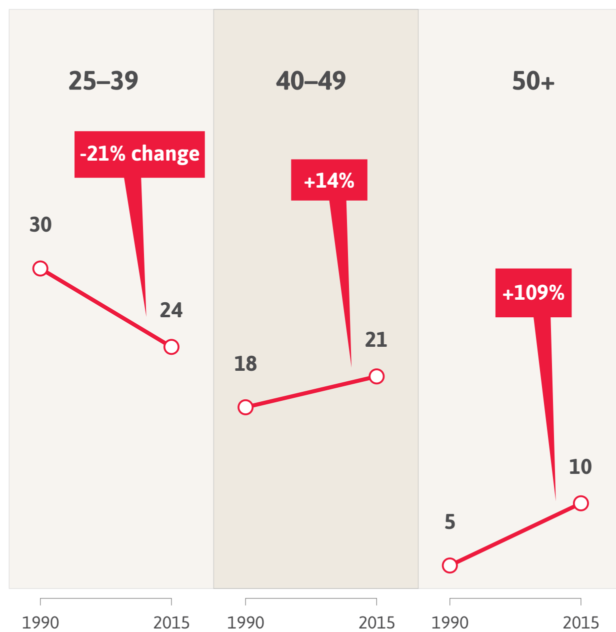
Dividing assets in middle age is a big adjustment

If you are thinking about divorce, think hard. Personal reasons carry the day, but the financial consequences are certain to be significant. If you would be astonished to be asked for a divorce, think again. There is no harm in keeping your eyes wide open. It is our observation that the happiest and most secure couples make their financial decisions together, and the family as a whole benefits when both spouses are fully engaged.

Jeff Maurer is the CEO of Evercore Wealth Management and Evercore Trust Company, N.A. He can be contacted at maurer@evercore.com

Divorce rate for adults ages 50 and older has roughly doubled in the past 25 years

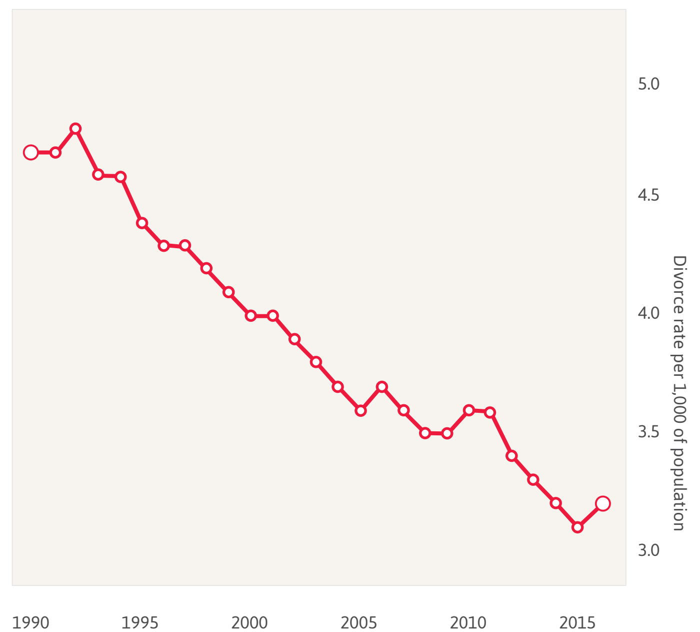
Number of persons who divorced per 1,000 married persons in given age group



Source: PEW RESEARCH CENTER.

Divorce rate for U.S. population overall has declined in the past 25 years

Divorce rate in the U.S. between 1990-2016 per 1,000 of population



Client Events

U.S. competitiveness and the future of the country's technology industry were the focus of three recent events at Evercore Wealth Management and Evercore Trust Company, N.A.

Deborah Wince-Smith, the President and CEO of the Council on Competitiveness, led a discussion in Minneapolis that focused on the areas likely to generate and exploit new technologies, identifying areas in which wealth will likely grow and investors prosper.

In New York, **Edward Alden**, a senior fellow at the Council on Foreign Relations, the author of *Failure to Adjust: How Americans Got Left Behind in the Global Economy*, and the former Washington, D.C. bureau chief of the *Financial Times*, addressed U.S. competitive strengths and weaknesses, and the potential impact on companies – and investors – of rising trade tensions, aging demographics and infrastructure, and a slowing global economy.

Also in New York, tech venture capitalist **Matt Cohler**, an early Facebook employee and now a general partner at Benchmark Capital, discussed the next "new thing," the evolution of the tech industry in Silicon Valley, and the intersection of privacy and technology. Prior to the event, he was interviewed by **Jane Gladstone**, an Evercore Senior Managing Director leading Evercore's financial services corporate advisory business. To view the interview, please visit evercorewealthandtrust.com.

Independent Thinking Panel Series:

- A Comprehensive China Policy
  Speakers: Elizabeth Economy, Senior Fellow and director for Asia studies at the Council on Foreign Relations, and Kevin Rudd, former Prime Minister of Australia and President of the Asia Society
- Collecting in Context: A Panel Discussion with Leading Art Advisors and Evercore Wealth Management
  Speakers: Wendy Cromwell, independent art advisor; Amy Cappellazzo, Executive Vice President and Chairman of the Fine Art division of Sotheby's; and Lisa Roumell, MoMA PS1 board member
- A Primer on Changing State Domicile
  Speakers: Jeff Maurer, CEO of Evercore Wealth Management, and Helena Jonassen, Partner and Wealth and Fiduciary Advisor at Evercore Wealth Management
- The 10th Annual CLE Event: The Whole Truth
  Speaker: Anthony E. Davis, Esq.

Wise Women Seminars:

- Toasting the Holidays: A Mother/Daughter and Daughter-in-Law Champagne Tasting
  Speaker: Kathryn Williams, executive coach

Please contact your Wealth & Fiduciary Advisor or **Jewelle Bickford** at jewelle.bickford@evercore.com for further details on upcoming Evercore Wealth Management events in your region.

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