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CLIENT BULLETIN

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➢ *Who Pays the Tax?*

Every year the Tax Policy Center, a non-partisan Washington-based research group, publishes a report detailing how much federal income tax the various income groups paid the previous year. http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=4323&DocTypeID=7. Every year as well it seems that both ends of the ideological spectrum seize the data in support of their particular view of what a "fair share" of income taxes is in the United States. As Daniel Patrick Moynihan said, "You are fully entitled to your own opinion, but you aren't entitled to your own facts". Herewith are the facts (upon which you can form your opinions):

Income Level	Share of Total Federal Income Tax Paid
• Lowest 20%	-2.2%
• Second lowest 20%	-1.7%
• Middle 20%	4.2%
• Second highest 20%	12.9%
• Highest 20%	86.8%

A negative share of federal income tax indicates that taxpayers received more money back in tax credits than they paid in taxes. The top 1% of income earners paid 43.6% of all federal income tax in the U.S.

➢ *Tax-Less Haven*

The Persian Gulf countries are facing some tough decisions thanks to the decline in oil prices and the associated loss of revenues for those countries. Gulf States have spent hundreds of billions of petrodollars in recent decades building their economies from scratch. Lacking enough people and know-how to achieve their ambitions, they have relied on minimal or no income taxes to lure millions of foreign workers. Gushers of oil revenues led to budget surpluses despite the absence of income taxes.

➢ *A Tax by Any Other Name*

Most of these countries are being forced to reassess their low or zero income tax regimes as they search for new sources of income to meet the demands of their youthful and burgeoning populations and the schools, hospitals and cradle-to-grave welfare systems they have come to expect. Wary of frightening off multinational companies and skilled foreign workers, Dubai for example is carefully naming the new revenue raising strategies. Dubai residents must pay an "innovation fee" to fund a Museum of the Future and a "hotel occupancy surcharge" to help pay for Expo 2020 in Dubai.

➢ *Politics and Investing Don't Mix*

With the White House and control of both houses of Congress at stake, 2016 promises to be both exciting & exhausting. Along with those heightened emotions, an election year brings with it the temptation to base economic and investment decisions on political outcomes. Don't fall for it:

- The overwhelming majority of what happens in the U.S. economy depends on you, me and the businesses we patronize and work for. Federal, state and local government spending accounts for 17.7% of Gross Domestic Product. Don't get distracted from participating in the 82.3% of the economy that produces U.S. wealth, not to mention global output that is produced outside of the United States' borders.
- United States policy changes in small steps. Barring a historic landslide, the next president is unlikely to have a filibuster-proof majority in the Senate meaning any block of 41 Senators has a powerful negotiating tool.
- Campaign rhetoric doesn't always match what happens during a president's tenure. Take 2008 as an example. Candidate Barak Obama campaigned on a promise to limit carbon emissions and support development of non-petroleum fuels. Based on this, an investor may have avoided companies involved in the production and transportation of oil and gas. In reality, the percentage of domestic oil consumption satisfied by U.S. crude oil production grew from 25.6% in 2008 to 46.7% in 2015 thanks to advanced techniques for extracting oil and gas.
- The state of the economy generally influences who becomes president, not vice versa.
- Well-positioned, well-led companies will create investment value regardless of who sits in the White House.

➢ *Can't Resist*

I can't resist one political prediction – Republicans will almost surely retain control of the House of Representatives. The U.S. Constitution requires that a census be conducted every 10 years, which state legislatures then use to redraw their Congressional districts. The last one was in 2010 when Republicans scored many political victories at the federal and state level. These Republican-led legislatures re-drew the lines of their states' Congressional districts in a manner that maximized the number of districts safe for Republicans, a process called gerrymandering. Gerrymandering produces a strong bias toward the incumbent party in most Congressional districts. Of the 435 House races, only about 12 are considered a toss-up and Democrats need 30 seats to take over control of the House.