OSBORNE PARTNERS
Capital Management, LLC

The 2024 Election: Taxes, the Economy, and the Market

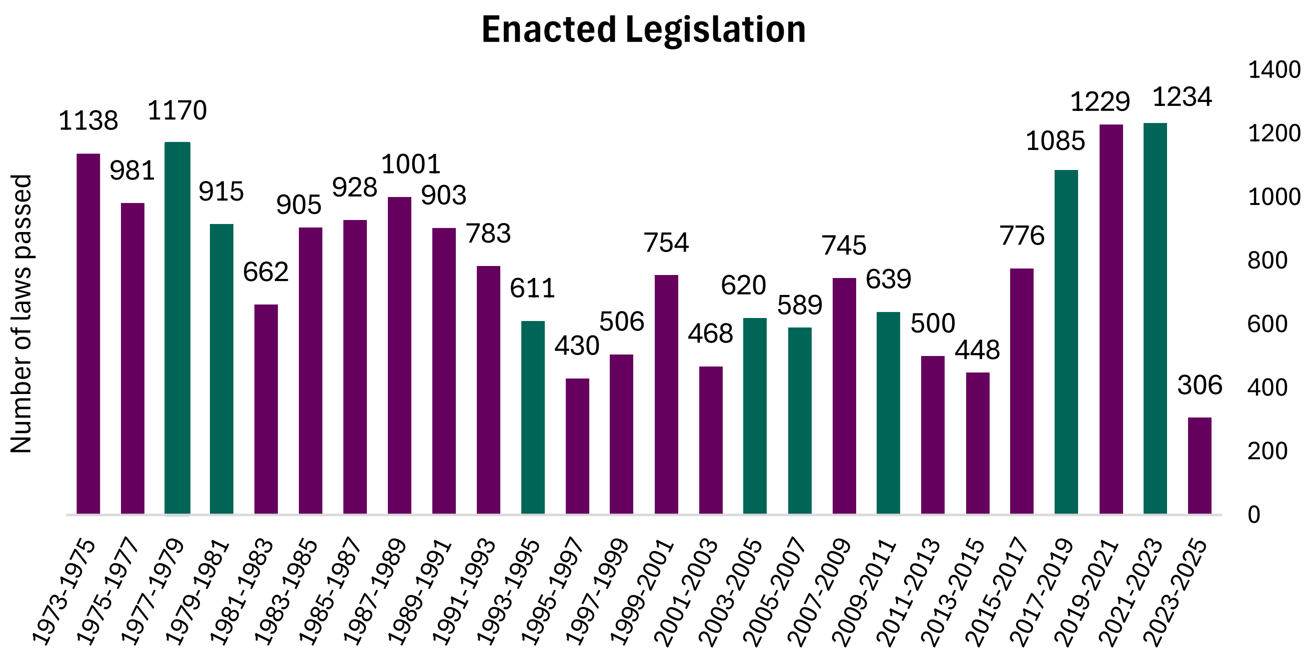
By: Jason Rodnick, CFA

October 2024

Headlines suggest major shifts in tax and economic policies, but the reality of a narrowly divided government will likely result in more incremental and moderate changes.

As we approach the November elections, uncertainty looms over the markets and the economy. While elections always bring a degree of unpredictability, this year's contest between Vice President Harris and former President Trump is especially close. Currently, prediction markets and polling data suggest a Harris victory is more likely, but with a divided Congress.

Analysts expect Republicans to flip the Senate by a narrow margin and Democrats to gain a slim House majority. Within the Senate, Democrats are defending 23 seats, including two seats rated “toss up,” one “lean R,” and one “solidly R.” Comparatively, the Republicans are only defending 11 seats with just one “lean R.” A divided government would likely continue legislative gridlock, blunting the winning candidate's headline proposals and limiting significant changes to tax and economic policies. As shown in the following chart, divided governments (purple columns) have become increasingly less productive.



Source: govtrack.us, OPCM

The 2024 Election: Taxes, the Economy, and the Market

Personal Taxes and Expiration of TCJA

Absent legislative action, most of the personal tax code changes from the 2017 Tax Cuts and Jobs Act (TCJA) will expire at the end of 2025, leading to potentially higher taxes for most taxpayers and the rollback of popular provisions like higher standard deductions and personal exemptions. Areas of focus will be the State and Local Tax (SALT) deduction, changes to the tax brackets, the estate tax exemption, and capital gains tax rates. Broadly speaking, Harris would like to raise taxes on wealthier households and close various loopholes, while Trump would like to make permanent many of the expiring provisions of TCJA.

The current $10,000 cap on itemized deductions for SALT is set to expire after 2025, and its future is up in the air. Harris has indicated support for raising or removing the cap, while Trump is expected to keep it at $10,000. However, he has recently come out in favor of removing it too.

Tax rates and the estate tax exemption will likely change. With the expiration of the TCJA, tax brackets will revert to their pre-TCJA levels. Harris has proposed only reverting the top marginal tax rate to 39.6% from 37% and keeping the lower brackets at existing levels. The expiration of the TCJA will see the estate tax exemption cut in half to ~$7 million (~$14 million for couples) from ~$13.6 million (~$27.2 million for couples). Trump proposes to keep both provisions as is by making the TCJA changes permanent.

Capital gains taxes are another area of focus. Harris proposes increasing the highest long-term capital gains tax rate from 23.8% to 33% for those earning over $1 million annually. She also suggests taxing unrealized gains at death above a $5 million estate exemption ($10 million for joint filers). Trump, on the other hand, has suggested he might push for further reductions in capital gains taxes and would keep the estate tax exemption unchanged.

In a divided government, we expect broadly similar policies from either a Harris or Trump administration (gray in the table below). In the case of a Democrat or Republican sweep, the narrow margin of victory would likely limit representatives' and senators' willingness to adopt hardline party policies.

OSBORNE PARTNERS
Capital Management, LLC

The 2024 Election: Taxes, the Economy, and the Market

	Current Policy	R sweep proposed	R sweep expected	Trump w/ Divided	Harris w/ Divided	D sweep proposed	D sweep expected
Top marginal rate	37% (39.6% after	37.0%	39.6%	39.6%	39.6%	39.6%	39.6%
Top rate cap gains/	23.8%	N/A	23.8%	23.8%	23.8%	33.0%	28.8%
Minimum tax (incl.	N/A	N/A	No	No	No	Yes	No
Net Investment	3.8%	N/A	3.8%	3.8%	3.8%	5.0%	3.8%
Surtax on upper income	N/A	N/A	No	No	No	N/A	5% on 10mm+, 8% on 25mm+
State and local tax deduction limit (SALT)	$10,000 (unlimited after 2025)	$10,000	$20,000	$20,000	$20,000	Unlimited	$80,000
Passthrough deduction	20% (0% after 2025)	20%	20%	20%	20%	N/A	20% (<$400k)
CTC & EITC	$2,000 ($1,000 after	N/A	$2,000	$3,000	$3,000	$3,000	$3,000
Homebuyer assistance	No	No	No	No	No	$25,000 credit	$10,000 credit
Tip exclusion	No	Yes	No	No	No	Yes	No
Social Security benefits	Partially Taxable	Excluded	Taxable	Taxable	Taxable	Taxable	Taxable

Source: Goldman Sachs

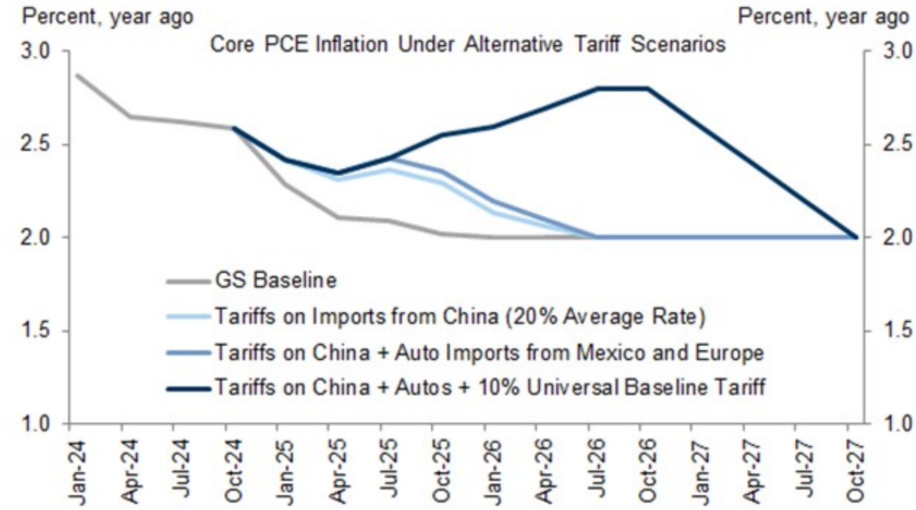
Corporate Tax Changes?

Both candidates have made bold claims about corporate taxes. Harris has proposed increasing corporate taxes to fund higher levels of spending by raising the corporate rate from 21% to 28%, along with changes to taxes of foreign income, and implementing a minimum corporate tax. Meanwhile, Trump has suggested further corporate cuts, potentially to 15%. However, as with personal taxes, the reality of a divided government would likely temper these ambitions.

Deficits, Trade, and Infrastructure

Trade and tariffs policies are another area where the candidates have widely divergent goals. Trump would push to expand tariffs, including a 60% tariff on Chinese goods and a 10% universal tariff. A Harris administration would likely maintain consistent trade and tariff policies. The primary concern with widespread tariffs is their potential to increase inflation. Goldman Sachs estimates that each percentage point increase in effective tariffs increases core inflation by 0.10%. Trump's proposed tariffs would increase core inflation by 0.30% to 0.40% over the next few years and headline inflation by as much as 3% to 4%.

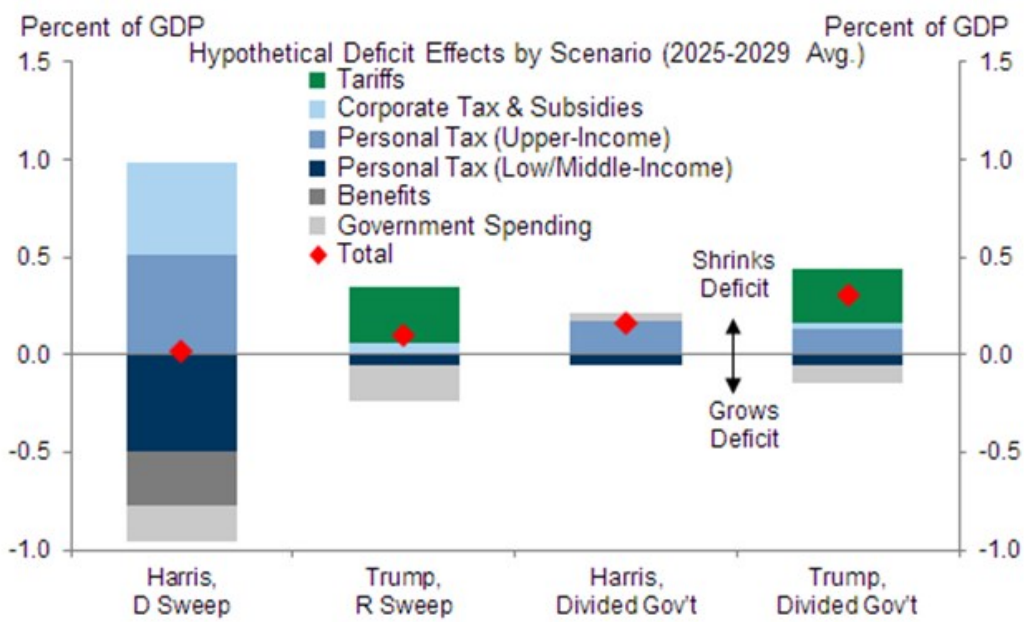
The 2024 Election: Taxes, the Economy, and the Market



Source: Goldman Sachs Global Investment Research

The Fiscal Impact

The fiscal impact from the numerous changes expected in taxes, tariffs, benefits, and spending will likely be neutral to beneficial to the deficit. If Democrats sweep, personal and corporate taxes and benefit spending will likely rise. If Republicans sweep, they will likely stay mostly unchanged. Divided government scenarios would likely result in a modest net increase in tax receipts, as Congress would likely allow the upper-income portion of the 2017 tax cuts to expire, but little change to benefit programs. The analysis below from Goldman Sachs shows the revenue and spending impacts from the various potential changes.



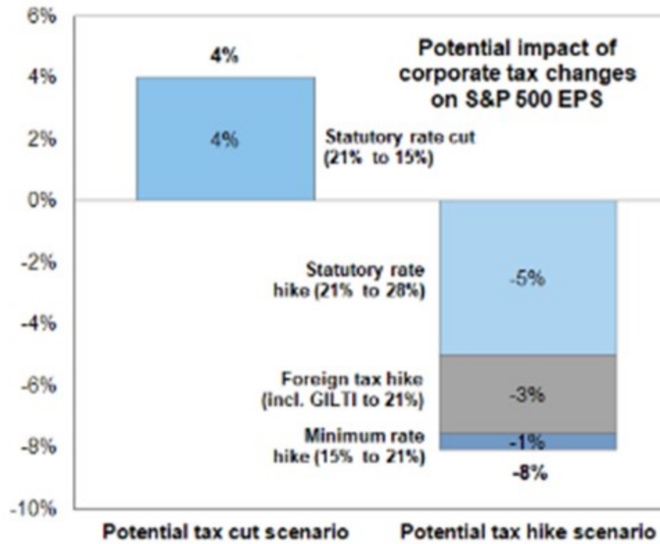
Source: Goldman Sachs Global Investment Research, Treasury

OSBORNE PARTNERS
Capital Management, LLC

The 2024 Election: Taxes, the Economy, and the Market

Market Impact

While we expect the overall impact on the S&P 500 to be muted due to legislative gridlock, we would expect any corporate tax rate changes to be quickly incorporated by the market. As shown in the chart below, analysis done by Goldman Sachs suggests that each percentage point change in the corporate tax rate would affect S&P 500 earnings by slightly less than 1%. The tax changes proposed by Harris could potentially reduce index earnings by 8%, while a Trump cut to 15% may boost earnings by 4%.



Source: Goldman Sachs Global Investment Research

Looking back to 2017, the TCJA reduced the corporate rate from 35% to 21%, which boosted S&P 500 earnings by 12% in 2018. In fact, following the passage of the TCJA, the S&P 500 immediately rallied by about the same magnitude as the earnings boost it ultimately received.

As we navigate the uncertainty surrounding the upcoming election, it is crucial to remember that headlines are often sensationalized, and the actual impact of political changes on long-term investment performance is typically less dramatic than short-term market reactions might suggest. Markets have historically performed well under both Democratic and Republican administrations. The S&P 500 has averaged annual returns of about 10% over the past 100 years, spanning numerous political landscapes, tax regimes, and Presidential administrations.

The 2024 Election: Taxes, the Economy, and the Market

The investment philosophy here at Osborne Partners is built on the foundation of diversification, disciplined analysis, and a long-term perspective. We believe that adhering to a style-agnostic, disciplined investment strategy is the best approach to achieving your financial goals, regardless of political outcomes. As always, please reach out to your Wealth Counselor if you have any questions or concerns.