

ELECTION 2024 RESULTS: KEY TAKEAWAYS

NOVEMBER 6, 2024

Former President Donald Trump has been elected the 47th president of the United States, with Republicans also taking control of the Senate — though with fewer than 60 seats. The makeup of the House of Representatives, however, remains undecided, and it could take days or weeks before the precise composition is finalized.

This result will likely allow the incoming Republican administration to translate a number of its pre-election policy platforms for tax, fiscal and regulation into law. Below, we highlight the key implications of policy under a Republican-led government for your portfolio and wealth plan.

Takeaways

- Key provisions of the Tax Cuts and Jobs Act (TCJA) will likely be extended beyond the scheduled sunset at the end of 2025.
- If Democrats were to secure a majority in the House, the result would be a divided government with a slim Republican majority in the Senate. In this case, 60 Senate votes would be required to pass tax legislation, necessitating bipartisan support. If a compromise were secured to avoid TCJA expiration, we may see a focus on the middle-ground, and not all provisions extended.
- Conversely, if Republicans secure a House majority, Congress could extend tax legislation with only 51 votes in the Senate, avoiding the 60 vote requirement.

- Near-term, if the TCJA were extended, income and capital gain taxes will remain unchanged, making it generally advantageous to defer income and accelerate deductions.
- Long-term, the trajectory of the national debt and increasing Social Security costs may necessitate tax increases to maintain fiscal solvency. This could eventually lead to higher income tax rates, potentially impacting long-term planning.
- Businesses may consider accelerating imported purchases before enactment of any new tariffs.

Elections and Markets

As is the case with each presidential election, one of the most frequent questions we are asked by clients is: What is the likely impact on markets?

As has been the case in the past, the ultimate effect on markets remains uncertain. While it is likely Republicans will seek to extend the tax provisions of the TCJA, it is not guaranteed. Further, there are additional dimensions to policy proposals that need to be assessed as a package of growth and inflation “puts and takes.” Finally, it is unclear this early in the process exactly which proposals may result in actual policy, and when.

What we do know is that equity market volatility has a history of rising in the weeks leading into the election — and this is exactly what we have experienced — but tends to dissipate as results become known. We expect market volatility will follow this historical pattern, and fall over the next several weeks. The ultimate direction of equities going forward will depend heavily on corporate fundamentals, and we are confident that U.S. companies will exhibit flexibility to address different political climates over time.

We remind investors using a goals-driven investment model that your Portfolio Reserve is in place to protect against volatility. It was intentionally established on your terms and according to your goals — not theoretical benchmarks, risk tolerances or election outcomes. With this in mind, we advise thoughtful review of your portfolio to ensure access to adequate liquidity and income to fund near-term goals and lifestyle expenses in the event of market stress. While it can be difficult to remain committed to your investment plan during such periods, having a Portfolio Reserve may help you avoid making short-term decisions that might jeopardize your long-term goals.

Tax Implications

A primary tax objective for a Republican administration will likely be making permanent the TCJA provisions that would otherwise sunset. This includes keeping income tax rates as well as the estate, gift and Generation-Skipping Transfer tax exemption at current levels. The TCJA elimination of miscellaneous itemized deductions and personal exemptions are likely to remain in place.

A Republican administration may also pursue reductions in the capital gains tax rate, a reduction in corporate income tax rates, and a repeal of the green energy credits contained in the Inflation Reduction Act. Additionally, President-elect Trump has proposed taxing the endowments of private universities, eliminating the cap on deductions for state and local taxes, and eliminating the tax on tipped income and Social Security benefits. He has also proposed increasing tariffs on imported goods.

A Republican administration is also likely to push for certain business tax provisions contained in the Wyden-Smith bill that stalled in the Senate, including extending bonus depreciation, increasing the limit on expensing depreciable business assets, and postponing the effective date of the requirements to amortize certain research and development expenses.

Still in Play: House of Representatives

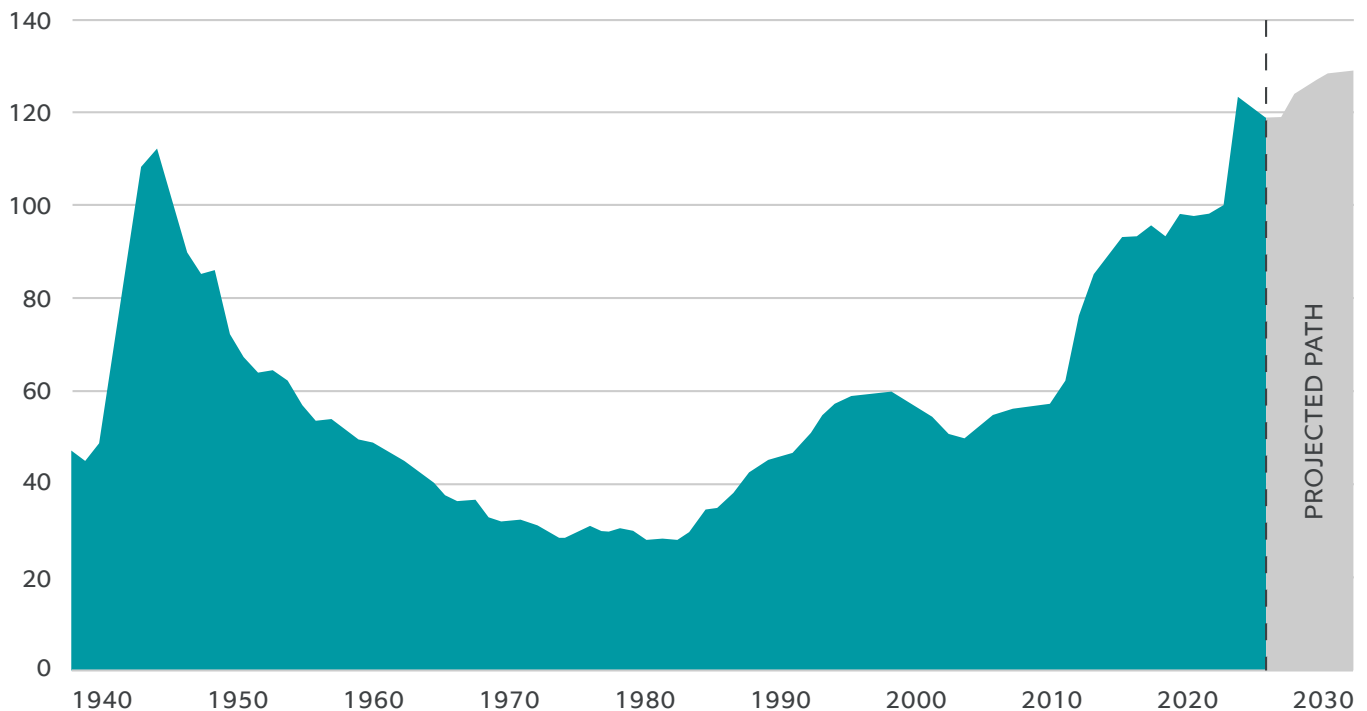
As noted, if Democrats win a House majority, the result would be a divided government. With a slim Republican majority in the Senate, 60 votes would be required for tax legislation to pass the Senate and avoid a filibuster. Consequently, tax legislation would require bipartisan support. If a compromise is secured to avoid the sunset of the TCJA, we may see a focus on the middle-ground, and not all provisions extended.

If Republicans win a majority in the House, Congress could enact tax legislation through reconciliation. The reconciliation process allows for expedited passage of tax legislation through the Senate with a simple majority (51) vote, bypassing the 60-vote filibuster threshold. In order to pass through reconciliation, the legislation must be related to the budget and must not significantly increase the deficit. One potential consequence is that tax legislation passed through reconciliation may not be permanent.

Federal Spending and Taxes

Factoring into these negotiations is the fact that the incoming administration inherits a fiscal deficit that has been on an alarming upward trajectory. Government spending during the pandemic rose and remained elevated, which has significantly increased the national debt: According to the Office of Management and Budget, it is now expected to reach 124.3% of GDP in 2024. When coupled with sharply higher interest rates over this period, the annual cost of debt service has more than doubled since 2020, raising a substantial line item in the federal budget that is only expected to grow further, absent bipartisan progress on spending and tax reform. Lawmakers will need to weigh the potential economic benefits of these extensions against their long-term fiscal costs. While the incoming administration is likely to seek extension of key provisions of the TCJA, this underlying dynamic will continue to frame the debate on taxes and spending for years to come. Long-term, it may be prudent to plan for possible higher income tax rates in the future.

Gross Federal Debt, 1940 to 2029 Percentage of GDP



Source: White House: Office of Management and Budget Historical Tables. Table 7.1, Federal Debt at the End of the Year: 1940-2029. Accessed August 22, 2024

<https://www.whitehouse.gov/omb/budget/historical-tables/>

Planning for a Possible Unified Republican Government

The following steps may be warranted under a possible unified Republican government:

- Deferring corporate income until 2025 or 2026 and accelerating corporate deductions and any claims for green energy credits
- Generally, accelerating individual deductions to the current year with expectations that rates will not be higher than they are now
- Deferring gifts and other actions to avoid the sunset of the bonus exemption for estate, gift and GST purposes until 2025 and potentially beyond if Congress and the new administration are able to extend the TCJA provisions
- Postpone sales of capital assets in case rates are lower next year.
- Prioritize any major imported purchases for personal use or business inventories, before new tariffs may take effect.
- As noted, the fiscal trajectory could necessitate higher tax rates in the future. Strategically managing your income tax brackets can be beneficial in the long-term. By recognizing income incrementally and staying within lower tax brackets,

you may be able to convert traditional IRAs to Roth IRAs, providing long-term tax diversification and potentially significant tax savings in retirement.

Conclusion

For those who have not yet met with their advisors to begin planning for a changing tax landscape, our advice is to start now, as the strategies discussed above can take considerable time and coordination to implement.

Our goals-based framework for wealth planning allows clients to evaluate tradeoffs and uncover new opportunities to take action with confidence in any environment. This framework facilitates contemplation and planning for periods of market stress and includes the determination of the cost of a lifetime of goals net of expenses, taxes and adjusted for inflation — and the identification of optimal planning strategies to meet those goals.

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