ELECTION RESULTS AND TAX IMPLICATIONS: A PRIMER FOR 2025

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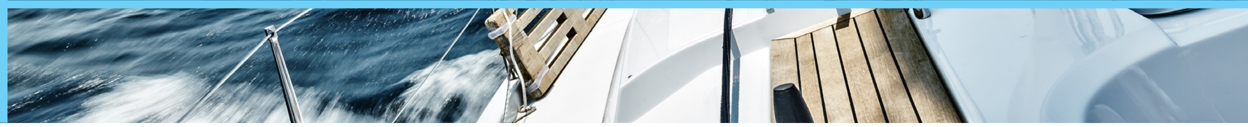

KEY TAKEAWAYS:

- Potential tax cuts and planned regulatory rollbacks under the Trump administration could benefit client portfolios.
- However, Trump policies on tariffs and immigration are expected to push up inflation, and possibly interest rates as well.
- We are monitoring developments carefully, but we advise a conservative approach until we know what might actually change.

The January start of Donald Trump's presidency is expected to ring in meaningful changes in taxation and economic policy. That has sparked significant speculation among investors, but we believe it is crucial to approach the potential policy shifts with measured consideration.

At our firm, we've engaged extensively with clients to evaluate how these changes might impact portfolios and tax preparation. However, our primary focus remains on prudent decision-making—emphasizing actions that align with long-term goals while avoiding reactionary moves based on speculative assumptions.

A CAUTIOUS APPROACH TO CHANGE

Trump's agenda prioritizes tax reforms, regulatory adjustments, tariffs, and immigration policy shifts. However, the specifics of what will change, and when, remain uncertain. As such, we often advise adopting a conservative, wait-and-see approach. Prematurely making substantial changes to financial strategies can be risky when outcomes are unclear. Instead, we recommend sticking to established long-term plans and considering incremental adjustments as needed when policies become more concrete.

TAX POLICIES: WHAT TO EXPECT

Trump's campaign proposals suggest notable changes to the tax landscape. While the full extent of these shifts remains uncertain, here are the key areas to watch:

For Individual Income Taxes:

The 2017 cuts, including a top rate of 37%, are likely to be extended.

Adjustments to the State and Local Tax (SALT) deduction could emerge as a negotiation point. Bipartisan discussions might lead to either increasing the deduction cap or repealing it entirely, benefiting constituents who live in states with high state and local taxes.

For Capital Gains and Dividends:

Current rates are likely to persist, though Trump representatives have floated reducing the top rate to 15% (down from 20%) or eliminating the 3.8% net investment income tax (NIIT).

For Estate Taxes:

Trump has expressed interest in making the current $13.6 million exemption per person permanent. Without legislative action, this limit would revert to $5.5 million per person when the Tax Cuts and Jobs Act (TCJA) sunsets in 2025.

For Corporate Taxes:

Trump's proposals include reducing the corporate tax rate from 21%, potentially as low as 15%. Such a move would aim to enhance business competitiveness but would face scrutiny amid rising deficits and higher interest rates.

On the campaign trail, Trump mentioned a variety of other tax cuts that are under consideration, such as eliminating taxes on Social Security benefits, tips, and overtime pay. Additional ideas, such as expanded childcare tax credits and deductions for auto loans, are less likely to gain traction but remain under discussion. Maintaining flexibility in financial planning is crucial as these potential changes unfold.

ECONOMIC IMPLICATIONS

Beyond tax policies, Trump's broader economic agenda prioritizes reduced regulation, tariffs on imports, and immigration reforms. These priorities could create both opportunities and challenges for the typical financial plan.

Rollbacks on regulation may be a boon for stock market performance. A lighter regulatory touch could reduce operational costs and boost profitability in several industries, notably energy, financial services, and industrials. Smaller companies in particular have rallied since the election, reflecting hopes that reforms might reduce their regulatory burden and make them more competitive. During Trump's first term, small businesses reported more optimism than either before or after his term.

On the other hand, many of Trump's signature policies could be inflationary. Tariffs, for example, are taxes on imported goods that both directly and indirectly raise the cost of goods sold. Trump's campaign indicated he wanted to impose a 10-20% tariff on all imported goods, and 60% for those from China.

Inflationary pressures could also be exacerbated by Trump's immigration goals. Trump has spoken about deportation and other measures that would effectively reduce the immigrant workforce by millions of people. Broadly speaking, fewer workers can lead to higher wages, particularly in hard-hit industries like construction and agriculture.

NFIB Small Business Optimism Index

Source: FactSet

Higher inflation has many knock-on effects, many of which would be challenging to client portfolios. These effects might include reduced consumer spending, slower economic growth, and potentially higher unemployment. If Trump policies do prove inflationary, we would expect the Federal Reserve to keep interest rates elevated or raise them further. Staying informed and adaptable will be key to navigating these dynamics on behalf of our clients.

STRATEGIC FINANCIAL PLANNING

The early days of Trump's presidency present a complex mix of opportunities and challenges for investors. It's our view that a cautious and strategic approach—grounded in long-term goals—offers the best path forward. We encourage clients to:

- Refrain from making drastic changes based on speculation.
- Focus on diversified, long-term investment strategies.
- Monitor developments closely and adapt plans as needed.

By taking a measured and informed approach, investors can position themselves to weather potential policy shifts while remaining aligned with their broader financial objectives. As always, please contact us if you have any questions about how to prepare your portfolio for coming changes.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

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