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What does the election mean for taxes?

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The decision on the 2017 TCJA could either add \$2.6 trillion to the deficit, increasing federal debt, or to taxpayers, potentially impacting consumption. Therefore, this is likely to be one of the most consequential policy decisions the next administration makes.

Presidential candidates will be campaigning on various policy proposals throughout the year, but one policy item that must be addressed during the next administration is whether to sunset or extend tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA). This legislation altered taxes for both businesses and individuals; however, not all the provisions are permanent, with several important provisions set to expire at the end of 2025.

Permanent provisions:

- Corporate tax rate reduced to 21% from 35%
- Eliminated corporate alternative minimum tax (subsequently revised to a 15% minimum tax for companies with income over \$1 billion per the Inflation Reduction Act)
- Expanded depreciation deductions

Temporary provisions:

- Reduced federal income tax rates, with the top tax rate decreasing to 37% from 39.6%
- Raised alternative minimum tax exemption to \$70,300 for single filers and \$109,400 for joint filers
- Increased child tax credit to \$2,000 per qualifying child and expanded the eligible income level
- Doubled estate tax exemption to \$11.2 million from \$5.6 million
- Expanded standard deductions

The extension or suspension of these tax changes have meaningful implications on companies, the federal deficit, and consumers. Most of the key provisions that impact companies, including the corporate tax rate reduction, are permanent. Therefore, there should be no tax-related impact to earnings in the coming years unless the next president raises or lowers the corporate tax rate. Any potential impact will be indirect and dependent on how changes in the temporary provisions influence consumer spending. Additionally, when looking at the impact of the TCJA on corporate profits so far, it is still too early to paint a clear picture. As per recent research from the National Bureau of Economic Research, it normally takes 5-8 years to see the true effects of a tax cut on a firm's productivity and R&D.¹ This timeframe is likely longer in the current environment given pandemic-related disruptions.

On the deficit, under current law, the Congressional Budget Office (CBO) projects individual tax revenue to decrease in 2024, but then increase thereafter due to expiration of the tax cuts. If the individual tax provisions in the TCJA were extended, this would add \$2.6 trillion to the federal debt through 2033 (\$2.5 trillion from individual tax rate changes; \$126 billion from estate tax exemption changes), with the deficit expected to begin widening further in 2025.

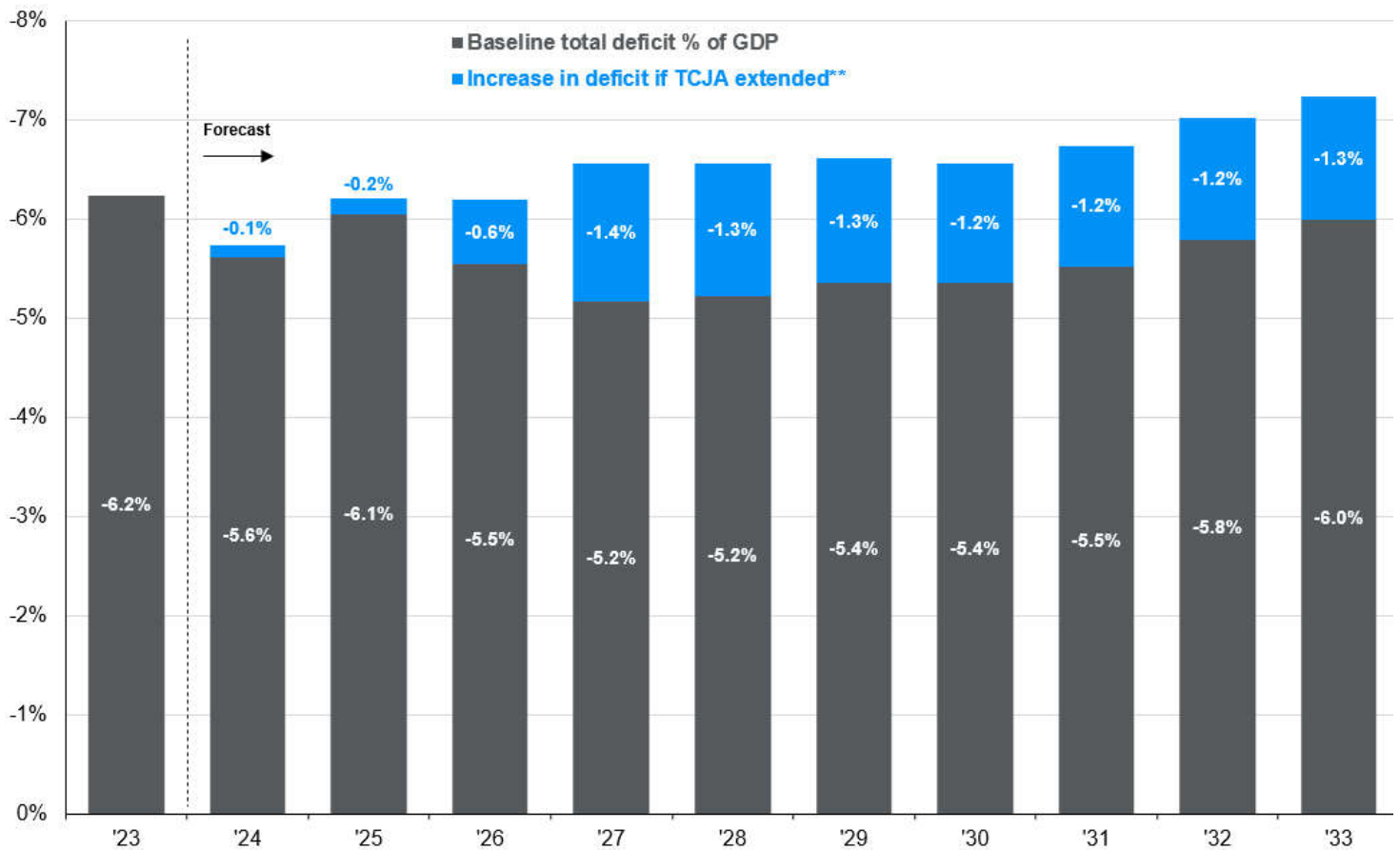
If tax cuts sunset and the taxpayer's bill increases by \$2.6 trillion over the next decade, this could impact consumption and therefore growth. Analyzing how income and federal taxes changed before and after the TCJA (2017 – 2019), for every dollar increase in income, federal taxes decreased by 25 cents for the bott

90% of earners but increased by 42 cents for the top 10% of earners due to a 19% jump in average income before taxes, translating to higher tax revenue. Because the bottom 90% of earners have a higher marginal propensity to spend, a higher tax bill could negatively impact consumer spending.

Much is still unknown about potential tax changes after the election; however, the decision on the 2017 TCJA could either add \$2.6 trillion to the deficit, increasing federal debt, or to taxpayers, potentially impacting consumption. Therefore, this is likely to be one of the most consequential policy decisions the new administration makes.

Increase in federal deficit if the Tax Cuts and Jobs Act (TCJA) is extended*

% of GDP, 2024 – 2033, impact based on CBO Baselines Forecast



Source: CBO, J.P. Morgan Asset Management. *Estimates are based on the Congressional Budget Office's (CBO) "The Budget Outlook and Economic Outlook: 2024 to 20234." **Assumes the following provisions from the TCJA are extended: changes to individual income tax provisions, higher estate and gift tax exemptions, changes to the tax treatment of investment costs, and maintaining certain businesses tax provisions going into effect in 2023.

¹James Cloyne, Joseba Martinez, Haroon Mumtaz, Paolo Surico, "Short-Term Tax Cuts, Long-Term Stimulus," *NBER* July 2022.

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