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Personal Taxes and the Election

The outcome of the impending U.S. election could have a major impact on your taxes and planning future.

The 2024 presidential election pitting former President Donald Trump against current Vice President Kamala Harris is a clash of world views, with perhaps no area reflecting more differences than tax policy. At a high level, Trump favors an extension of his 2017 tax cuts as a way to help drive economic prosperity while Harris seeks redistribution of the tax burden to support the middle class. Still, their positions have been evolving, with some limited overlap. As election day draws near, we present key highlights of the candidates' proposals and some thoughts on how they may affect tax and estate planning in the coming months.[1]

Trump: Broader Tax Relief

For his potential second term, Donald Trump is looking to double down on the tax reforms he introduced seven years ago. This would include extending or making permanent current rates and exemptions, such as the top income tax rate of 37% and estate and gift tax exemption of $13.61 million.[2] He would also offer new tax breaks in specific areas; for example, he has proposed to eliminate taxes on income from tips and Social Security benefits. Additionally, he favors no longer taxing overtime pay and removing the limitation to the state and local tax deduction (currently $10,000). Meanwhile, his running mate, Senator JD Vance, has proposed an annual child tax credit of $5,000, up from $2,000.

On the business side, the former president has proposed using tariffs on foreign goods as a way to reduce the domestic tax burden and help restore U.S. manufacturing capabilities. Specifically, he has floated the idea of cutting the current 21% corporate tax rate (already reduced from 35% in 2017) to 20% generally, and to 15% for companies manufacturing goods in the U.S. He would also reintroduce the 100% bonus depreciation rate and would extend the 20% pass-through deduction for partnerships, LLCs and S corporations.

Harris: Focus on the Wealthy and Corporations

Vice President Harris's tax positions are largely in line with those of the Biden administration. Like the current president, she is looking to increase the tax burden on wealthier individuals and corporations in order to help fund goals on social spending and health care.

Importantly, Harris would seek to roll back the 2017 tax breaks for individuals earning $400,000 or more (and couples filing jointly and earning $450,000), but extend those benefits for everyone else. She would increase the top federal ordinary income tax rate from 37% to 39.6%. In addition, the current 3.8% Medicare surtax on passive investment income for individuals with annual "modified adjusted gross incomes" of over $200,000 ($250,000 for married couples) would be extended to non-passive business income, while a new top Medicare surtax rate of 5% would be introduced for individual taxpayers with incomes over $400,000.

[1] This article draws on the analysis of the Tax Foundation, as well as various news sources, for the tax proposals introduced by the two candidates.
[2] The exemption is scheduled to sunset at the end of 2025 and revert back to roughly its 2011 level of $5 million adjusted for inflation (or about $7 million) if no new legislation is enacted.

Harris would also like to increase the top tax rate on capital gains to 28% (not including the Medicare tax). That's less than Biden's original plan to match the top ordinary rate of 39.6%, but still considerably higher than the current 20% top rate. In addition, she supports the idea of taxing *unrealized* capital gains each year through a minimum 25% income tax rate on those with $100 million or more in assets, though there may be less legislative support for this type of proposal.

Assuming 2017 tax reforms expire after 2025, the estate tax exemption would decline from the current $13.61 million to roughly $7 million per person. However, the Harris campaign has endorsed the American Housing and Economic Mobility Act of 2024, which includes an estate tax framework that would lower the individual exemption to $3.5 million (the 2008 level) and raise estate tax rates. It would also limit the effectiveness of common estate planning strategies such as grantor retained annuity trusts, sales to grantor trusts and so-called dynasty trusts.

On the business side, Harris would seek to increase the top corporate tax rate from 21% to 28%, and favors enforcement of the global 15% minimum corporate tax agreed to by over 140 countries to help discourage "shopping" for tax jurisdictions. Also impactful for some business owners and investors, she favors ending the 20% tax deduction for flow-through entities and eliminating the "carried interest loophole" that treats such income as capital gains rather than ordinary income; it remains unclear whether these proposals would apply below the $400,000 income threshold mentioned above.

In terms of tax breaks, Harris has proposed to increase the tax deduction for new small business creation from $5,000 to $50,000. This comes on top of individual proposals such as an expanded child tax credit ($6,000 for children under one year old, $3,600 for children two to five years old and $2,000 for children ages six to 17). Like Trump, she favors eliminating taxation of tip income, although possibly just for those earning $75,000 or less. Additionally, she supports providing $25,000 in downpayment assistance to first-time homebuyers.

Planning After the Election

When thinking about the candidates' positions, it will be important to distinguish what they want and what they can actually achieve. This could be greatly affected by the makeup of the broader government after the election. If the Republicans or Democrats sweep both presidential and Congressional races, Trump or Harris will have a far freer hand to implement policy. In contrast, divided government (with the opposition taking one or both legislative majorities) could offer opportunities around only those matters where there is bipartisan agreement. A key wild card in this election cycle is the post-2025 expiration of many 2017 tax reforms. Since neither party appears to want to preside over broad tax increases for the middle class, we could see a period of lively negotiation between partisan camps.

Fortunately, once the election is over, there will be meaningful opportunities for individuals to take steps around tax and estate planning in relation to these and other tax proposals.

In the case of a Democratic sweep or divided government, the current elevated estate tax exemption may be living on borrowed time—reinforcing the value of placing assets in wealth transfer vehicles this year (or at least prior to the expiration of current tax laws). In addition, taxpayers may wish to accelerate income and defer deductions in anticipation of any potential tax increases.

Should there be a Republican sweep, we believe there will still be value in discussing near-term planning strategies and connecting with your portfolio managers for insights on the potential economic impacts of Trump policies. In that scenario, with tax rates less likely to increase, it may behoove taxpayers to defer income and accelerate deductions into the current year where appropriate.

Typically, tax reforms aren't initiated in the year they are legislated, but that hasn't always been the case. Whatever the outcome, you will likely want to get ahead of potential changes and think about how they might affect your financial life and planning priorities in the months and years ahead.

Highlights: Trump and Harris Positions on Taxes

ORDINARY INCOME

DONALD TRUMP

- Extend or make permanent 2017 tax reforms
- Maintain 37% top ordinary income tax rate
- Maintain current standard deduction
- Extend 20% pass-through deduction for partnerships, LLCs and S corporations
- Eliminate tax on tips, Social Security and overtime pay
- Remove limitation on the state and local tax (SALT) deduction

KAMALA HARRIS

- Allow 2017 rate cuts to expire for individuals making $400,000 and couples making $450,000 or more
- Increase top tax rate to 39.6%
- Expand the base of the Medicare surtax to include non-passive business income
- Introduce Medicare surtax top rate of 5%
- Eliminate tax on tips
- Many Democrats favor increasing the SALT deduction

CAPITAL GAINS

DONALD TRUMP

- Maintain current top rate of 20%
- Maintain current carried interest tax treatment as capital gains

KAMALA HARRIS

- Raise top capital gain tax rate to 28% for households making over $1 million
- Limit deferral of gains for real estate like-kind exchanges to $500,000 per person
- Tax unrealized capital gains as part of 25% minimum income tax on those with over $100 million in assets
- Treat carried interest as ordinary income for people earning more than $400,000

ESTATE AND GIFT TAX

DONALD TRUMP

- Extend current estate and gift tax provisions ($13.61 million exemption, indexed for inflation, 40% maximum rate)

KAMALA HARRIS

- Reduce estate tax exemption to half the current amount or lower
- Increase estate tax rates
- Limit effectiveness of common estate planning strategies such as grantor retained annuity trusts, sales to grantor trusts and so-called dynasty trusts

BUSINESS TAXES

DONALD TRUMP

- Lower corporate tax rate to 20% (15% for companies making products in the U.S.)
- Restore 100% bonus depreciation
- 10 – 20% tariff on most imported goods and 60% tariffs on Chinese imports

KAMALA HARRIS

- Increase corporate tax rate to 28%
- Enforce global minimum tax, raise rate to 21%
- Increase small business tax deduction from $5,000 to $50,000

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