Trump's First 100 Days: A Tax Guessing Game

The Tax Cuts and Jobs Act (TCJA), was signed into law in 2017 under the Trump Administration. It overhauled the U.S. tax code with sweeping changes. While TCJA was originally set to expire at the end of 2025, all signs suggest an extension under the new Trump administration. Additionally, during the 2024 presidential campaign, Trump promised to lower the corporate tax rate even further, from 21% to 15%.

TCJA Provisions That May Be Extended in 2025

- Individuals: TCJA lowered tax rates for most brackets, nearly doubled the standard deduction, and limited or eliminated several itemized deductions.
- State & Local Tax (SALT) Deduction: TCJA capped the SALT deduction at $10,000.
- Child Tax Credit: The credit doubled under TCJA to $2000 per child under age 17.
- Business Owners: Under the TCJA, the C Corp rate became permanent at 21%, down from 35%. C Corp owners can also claim a 20% pass-through deduction to reduce the effective tax rate on the business's net income.
- Estate & Gift Tax Allowances: Estate and gift tax provisions doubled the basic exemption amount from $5M to $10M under the TCJA, offering additional tax benefits to estates and heirs of high-net-worth clients. Since these figures are inflation adjusted, the 2025 exemption amount is $13.99 million per person.

Impact on Financial Markets

Trump's focus on tax cuts significantly underscored his 2024 campaign strategy. His proposal for vast tax reductions was again a centerpiece in his bid to return to the Oval Office. Along with his intention to extend the TCJA, Trump indicated other tax-related areas (noted below) he plans to focus on once he returns to the White House.

- Tariffs: During his previous presidency, Trump revised numerous trade agreements, most notably with China. His re-election campaign demonstrated what appears to be a pivot back to this issue under the guise of preserving American jobs and industries. Previous proposals included a 60% tariff on Chinese imports. This time, Canadian and Mexican imports may receive a 20% tariff.

  Tariffs will undoubtedly impact individual portfolio returns depending on allocations. As tariffs are applied, sector-specific and geographic holdings as well as companies reliant on foreign raw materials will likely result in lower stock valuations.

- National Deficit: Another consideration for TCJA extension is its impact on the national deficit, with the potential to increase the deficit by nearly $1.5 trillion over a decade. The national deficit is not the same as the national debt. The deficit is a measure of the American government's annual fiscal responsibility and refers to the spread between the national budget and actual government spending. National debt is the total amount the government has borrowed from other nations or American citizens and requires payment.

  While politicians talk of being 'deficit neutral' over the next 10 years, the likelihood of new tariffs reducing or neutralizing the deficit may not be possible.

- Research & Development (R&D): When filing taxes, Companies must amortize domestic R&D expenses over five years and foreign R&D expenses over 15 years. Before 2022, companies could deduct 100% of the full amount of R&D yearly, a popular tax deduction among business owners to expense these capital expenditures at tax time when filing corporate income tax. However, the deduction for R&D expenses has already begun phasing out.
    - Attempts to bring back the full R&D deduction failed in Congress in 2024.
    - Trump has indicated that returning the full deduction would help stimulate business expansion and job creation.
    - Sectors that may benefit from Trump's recommended revision include software, pharma, and products heavily reliant on R&D.

- 100% Bonus Depreciation: Reintroducing 100% depreciation as part of a bi-partisan deal failed to pass in 2024 under the Biden administration. However, during Trump's 2024 campaign, he indicated he was not giving up, suggesting reinstatement of 100% bonus depreciation retroactive to 12/31/2024.

While the TCJA has significantly changed the tax landscape, extending these provisions, plus introducing new tax cuts and tariffs may impact individuals and business owners. Although we can predict that there will be some impact, exactly what it will look like depends on multiple factors:

- Tax cuts often have cascading downstream effects that may not be obvious initially.
- The financial markets will perform either positively or negatively, but there's no crystal ball.
- Portfolio returns will reflect the national and international economies, but significant global uncertainty will create unpredictable outcomes.
- Inflation and GDP will also play a factor.

Within the first 100 days of the new Trump administration, CPAs are encouraged to meet with an experienced financial professional to better understand how tax legislation may affect clients from a wealth management, estate, and tax planning perspective. Or connect directly with a Choreo advisor to learn more about specific impacts on your clients, as well as potential mitigation solutions.

Contact Us

If we can be of any additional service to you or your clients, or if you'd like more information about how Choreo advisors partner with tax professionals don't hesitate to reach out. www.choreoadvisors.com/contact-us

Sources:

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