Wealth Management

Ameritas Investment Partners, Inc.

Market Commentary

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Election Implications and New Tax Provisions

Fearing a contested election that could take weeks to play out, Donald Trump's convincing win and his pro-business agenda triggered a furious rally in the immediate aftermath of the election.

Investors quickly embraced the notion that a Trump administration would swiftly promote deregulation and sustain the tax cuts enacted in 2017, despite concerns regarding his plans to significantly boost tariffs.

Nonetheless, at a time when the economy is at full employment and inflation remains above target, his plans to impose tariffs and eliminate various taxes, including overtime, tips, Social Security benefits and restoration of the State and Local Tax (SALT) deduction, are raising concerns about the deficit and inflation.

Trump takes the reins

- The post-election rally was sparked by a reminder of the first year of Trump's previous administration, i.e., deregulation, tax cuts and a business-friendly environment.
- The environment shifted in 2018 when Trump turned his gaze toward trade and tariffs.
- Investors are betting that the 21% corporate tax rate is safe under Trump 2.0.
    - The 21% rate has benefited investors. To paraphrase Warren Buffett, investors kept 65 cents of every dollar in pre-tax reform profits. With the reduction from 35% to 21%, 79 cents of every dollar accrued and still accrues to investors.
- Moreover, Trump campaigned to reduce the corporate rate to 15% for companies that domestically produce their products.
    - If passed, expect a hefty addition to the tax code to precisely define what "Made in the USA" means. Lobbying will be intense.
    - Would the rate be limited to goods only? Or will domestically produced software or services fall under the 15% umbrella?
- A tax on unrealized capital gains is out. So are tax hikes on wealthy individuals.
- Key provisions of the Tax Cuts and Jobs Act (TCJA) for individuals will sunset at the end of 2025, notably the expanded child tax credit, the increased alternative minimum tax exemption, the State and Local Tax deduction cap, the increased standard deduction and the lower income tax rates. Most corporate provisions are permanent.
- Expect Republicans to extend or make the TCJA permanent.
- Trump has promised new tax cuts, including the elimination of taxes on tips, overtime and Social Security benefits.
    - Republicans will enjoy a narrow majority in Congress.
    - Currently, much or all of the TCJA is expected to make its way through Congress eventually.
    - However, might new initiatives open negotiations to alter the TCJA?
    - What about Trump's promise to restore the state and local tax (SALT) deduction?
    - Will Republican deficit hawks stand in the way?
    - Inevitably, some degree of contention will surface.
- Additionally, targeted tax cuts for overtime and tips will inject additional cash into an already solid economy, potentially stoking inflation. Expect a more complicated tax code as taxable and nontaxable earnings fall into different buckets.

Deregulation and immigration

- Trump has promised to eliminate 10 rules for every new one—deregulation.
  - This would be an expected tailwind for equities.
- Expect a renewed push for drilling and oil/natural gas pipelines.
- Stricter trade and immigration policies threaten higher inflation.
  - Any economic uncertainty could pose a challenge for investors.
- From an economic perspective, immigration has alleviated labor shortages and reduced upward pressure on wages.

Tariffs

- Trump has threatened to levy steep new taxes on imports[1], including at least a 60% tariff on Chinese imports, a 25–100% tariff on Mexican imports, and a 10–20% tariff on all other imports.
  - In 2022, Mexico was the second largest exporter of goods to the U.S. ($455 billion), according to the Office of the U.S. Trade Representative.
  - China was No. 1 ($536 billion).
  - As a trading bloc, the European Union edges out China ($553 billion).
- Tariffs are a tax on imports paid by the importer.
- It's expected that the cost will be passed along to consumers.
  - Higher import prices leave room for U.S. manufacturers to raise prices.
- It's been argued that a rising dollar could mitigate pricing pressures. But proposed tariffs are too high to be balanced by a stronger dollar.
- Targeted countries may also retaliate by raising barriers to U.S. exports, especially agriculture.

The power to tax

- Article I, Section 8 of the U.S. Constitution reads[2], "The Congress shall have Power To lay and collect Taxes, Duties, Imposts, and Excises…"
- Over time, Congress has ceded some authority to the executive branch to impose or reduce tariffs.
- Presidents, including Trump, have used that authority to levy tariffs on specific industries.
- But can Trump enact the sweeping tariffs he proposes?
- Senator Rick Scott[3] suggests the Senate may need 60 votes.
- Alan Wolff, former deputy director-general of the World Trade Organization, believes Trump doesn't have such sweeping authority[4].
- If so, sweeping levies could be challenged in court.
  - Trump's threat of massive new tariffs may simply be a bargaining tool to force countries to lower their barriers to American goods. Yet, that remains to be seen.
  - Trump may be eyeing the revenues from tariffs to help offset some of the costs of his targeted tax cuts.

Speaking of taxes

Late last year, the Internal Revenue Service provided detailed information on adjustments[5] to more than 60 tax provisions that will impact taxpayers when they file their returns in 2026 for tax year 2025.

As incorporated into law, the IRS adjusts various categories to account for inflation. Annual inflation adjustments, however, do not cover all tax provisions.

Below, we will touch on the high points. If you have questions, please reach out to your financial advisor or a tax professional.

1. **Tax brackets have changed**. Table 1 highlights the seven tax brackets for 2025 for single, married, head-of-household and married filing separately.

Table 1: 2025 Tax Tables				
Taxable income ($)	**Base amount of tax ($)**	**Plus**	**Marginal tax rate**	**Of the amount over ($)**
Single				
0 to 11,925		+	10%	
11,926 to 48,475	1,192	+	12%	11,925
48,476 to 103,350	5,578	+	22%	48,475
103,351 to 197,300	17,651	+	24%	103,350
197,301 to 250,525	40,199	+	32%	197,300
250,526 to 626,350	57,231	+	35%	250,525
Over 626,350	188,769.75	+	37%	626,350
Married filing jointly and surviving spouses				
0 to 23,850		+	10%	
23,851 to 96,950	2,385	+	12%	23,850
96,951 to 206,700	11,157	+	22%	96,950
206,700 to 394,600	35,302	+	24%	206,700
394,601 to 501,050	80,398	+	32%	394,600
501,051 to 751,600	114,162	+	35%	501,050
Over 751,600	202,154.50	+	37%	751,600
Head of household				
0 to 17,000		+	10%	
17,001 to 64,850	1,700	+	12%	17,000
64,851 to 103,350	7,442	+	22%	64,850
103,351 to 197,300	15,912	+	24%	103,350
197,301 to 250,500	38,460	+	32%	197,300
250,502 to 626,350	55,484	+	35%	250,500
Over 626,350	187,031.50	+	37%	626,350
Married filing separately				
0 to 11,925		+	10%	
11,926 to 48,475	1,192	+	12%	11,925
48,476 to 103,350	5,578.50	+	22%	48,475
103,351 to 197,300	17,651	+	24%	103,350
197,301 to 250,525	40,199	+	32%	197,300
250,526 to 375,800	57,231	+	35%	250,525
Over 375,800	101,077.25	+	37%	375,800

Sources: Tax Foundation, IRS

Generally speaking, the rates in Table 1 are applied to taxable income—income less the standard deduction or itemized deductions, whichever is higher. In other words, if you are married and filing jointly and taxable income is $50,000, the first $23,850 is taxed at 10%, and the remaining income is taxed at 12%. This does not include tax credits or self-employment tax.

Table 2: Estates and Trusts				
Taxable income ($)	**Base amount of tax ($)**	**Plus**	**Marginal tax rate**	**Of the amount over ($)**
0 to 3,150		+	10%	
3,151 to 11,450	315	+	24%	3,150
11,451 to 15,650	2,307	+	35%	11,450
Over 15,650	3,777	+	37%	15,650

Source: IRS[6]

The standard rules apply to these four tax brackets. For example, if a trust has $10,000 in income during 2025, taxes would be calculated as follows:

- 10% of $3,150 (earnings between $0 – $3,100) = **$315**
- 24% of $6,850 (earnings between $3,101 – $10,000) = **$1,644**
- Add the two together, and total federal taxes due = **$1,959**

2. For single taxpayers and married individuals filing separately for the tax year 2025, **the standard deduction** rises[7] to $15,000 for 2025, an increase of $400 from 2024, according to the IRS.

   For married couples filing jointly, the standard deduction rises to $30,000, up $800 from tax year 2024. For heads of households, the standard deduction will be $22,500 for tax year 2025, an increase of $600 from the amount for 2024.

   For single filers and heads of households age 65 and over, the additional standard deduction[8] will rise from $1,950 in 2024 to $2,000 in 2025.

   For 2025, married couples over 65 filing jointly, the additional deduction per qualifying spouse will increase from $1,550 in 2024 to $1,600 in 2025, a $50 increase per qualifying spouse. If both are older than 65, there is a total increase in their standard deduction of $100.

3. For tax year 2025, **alternative minimum tax exemption amounts** for unmarried individuals[9] is $88,100 ($68,650 for married individuals filing separately) and begins to phase out at $626,350. For married couples filing jointly, the exemption amount is $137,000 and begins to phase out at $1,252,700. Individuals and couples are not subject to the alternative minimum tax until they reach the minimum thresholds.

4. The **maximum child tax credit** is $2,000 per qualifying child. It is not adjusted for inflation. The refundable portion of the child tax credit is adjusted for inflation and will remain at $1,700 for 2025.

5. The **gift and estate exemption** for individuals in 2025 is $14 million, up from $13.6 million in 2024. The **annual gift tax exclusion** for 2025 is $19,000, up $1,000 in 2024, without using any of the lifetime gift and estate tax exemption.

6. **Favorable treatment for long-term capital gains** is a cherished tax break for investors. Long-term capital gains, such as the profit on the sale of a stock held for more than one year, are taxed at a more favorable rate than short-term gains. A short-term gain is taxed as if it were ordinary income. Qualified dividends are also taxed at a lower rate.

Table 3: 2025 Tax Rates on Long-Term Capital Gains and Qualified Dividends	
Taxable income	**Tax rate**
If taxable income falls **below** $48,350 (single/married-filing separately), $96,700 (joint), $64,750 (head of household), $3,250 (estates)	0%

If taxable income falls **at or above** $48,350 (single/married-filing separately), $96,700 (joint), $64,750 (head of household), $3,250 (estates)	15%
If income falls **at or above** $533,400 (single), $300,000 (married-filing separately), $600,050 (joint), $566,700 (head of household), $15,900 (estates)	20%
3.8% tax on lesser of net investment income or excess of MAGI over	
Married, filing jointly	$250,000
Single	$200,000
Married, filing separately	$125,000

Source: IRS[10]

7. The Tax Cuts and Jobs Act (TCJA) of 2017 includes a **20% deduction for pass-through businesses**. Limits on the deduction begin phasing in for taxpayers with income above $197,300 (or $394,600 for joint filers) in 2025. This compares to income above $191,950 and $383,900, respectively, for joint filers in 2024.

   This is just a high-level overview of the updates and does not include all of the new provisions and details. If you wish to learn more about the new provisions, please reach out to your tax professional.

2024—Another rise in excess of 20%

One year ago, we reasonably concluded, “Rate cuts that occur because the Fed ‘can,’ not because they ‘must,’ is the preferred path” for investors. It’s not that we have special insights when peering into the future. We have yet to find anyone who can consistently and accurately forecast peaks and valleys in the stock market. But we recognize that Federal Reserve rate cuts in response to weak economic growth (the “must” cut scenario) have historically failed to spur market gains.

For example, rate cuts by the Fed that were tied to recessions in 1974, 1990, 2001 and 2008 failed to prevent a slide in stocks until investors anticipated an economic upturn.

Last year, Fed officials indicated the possibility of rate cuts throughout the year, not due to fears of a damaging recession, but because they correctly anticipated a slowdown in the rate of inflation (the “can” cut scenario).

Prices are still elevated, and inflation continues to exceed the Federal Reserve’s annual target of 2%. However, the inflation rate did ease during the year, which encouraged the Fed to take action in September. This led to three consecutive reductions in interest rates. By the end of the year, the Fed had lowered the fed funds rate by a full percentage point to 4.25 – 4.50%.

The economy continues to expand, and with it, most major corporations are generating significant profits. Simply put, an easier monetary policy combined with economic growth and rising corporate profits fueled the second consecutive annual gain of over 20% in the S&P 500. This is the first such back-to-back increase since the late 1990s, according to *The Wall Street Journal*.

Other catalysts added to the advance, but the economic fundamentals played a significant role in last year’s returns.

Key Index Returns as of 12/31/2024

	MTD %	**YTD %**
Dow Jones Industrial Average	-5.13	14.99
Nasdaq Composite	0.55	29.57
S&P 500 Index	-2.38	25.02
Russell 2000 Index	-8.26	11.54
MSCI World ex-USA*	-2.66	5.26
MSCI Emerging Markets*	-0.09	1.25
Bloomberg U.S. Agg Total Return	-1.64	4.45

*in U.S. dollars

Source: Tamarac

Indices are unmanaged, do not incur fees or expenses and cannot be invested into directly. The above returns include the impact of both price appreciation (depreciation) and dividends. Equity markets fluctuate in value and smaller companies and foreign investments often are more volatile than larger domestic companies. Past performance is not indicative of future results.

Nonetheless, we believe it's important to highlight the difference in performance between the Dow Jones Industrial Average and the S&P 500 Index in 2024. This discrepancy can be attributed in part to the differing methodologies used to calculate these indexes.

Additionally, the surge in mega-cap technology stocks significantly contributed to the growth of the S&P 500 Index this year. According to Barron's and Dow Jones Market Data, seven large tech firms known as the Magnificent 7 made up over half the gains in the S&P 500 Index, a carryover of 2023's performance.

The new year

As we gear up for 2025, many of the major themes that drove the market higher last year remain in place. The economy is expanding, and corporate profits are expected to remain on an upward trajectory. Although the Fed is eyeing fewer rate cuts this year, it isn't currently considering rate hikes.

Furthermore, the incoming Trump Administration is expected to promote business-friendly policies such as deregulation, which will likely benefit both the economy and corporate profits. We may see a reduction in the corporate tax rate, while additional corporate stock buybacks are expected to underpin stocks.

Nonetheless, no one can accurately foretell the future. That's a given. What are some potential pitfalls that might stymie investors in 2025?

For starters, a rebound in inflation could force the Fed to raise interest rates. Such a move would likely generate uncertainty for a market that is richly valued and priced for perfection. On the other hand, if the Fed is too cautious and misjudges the economy, a deteriorating economic outlook could quickly hamper corporate profits.

Meanwhile, pro-business policies that are expected to be ushered in by the new president bolstered optimism following the election.

But if soon-to-be President Trump enacts sweeping tariffs, we may see a bump in inflation that is accompanied by slower economic growth. In 2018, Trump was more selective as he enacted tariffs, which generated market volatility and uncertainty.

Despite multiple Fed rate cuts last year, longer-term Treasury bond yields turned significantly higher over the last three months amid slower progress on inflation, upbeat economic growth, and a stubbornly high federal deficit.

A continued increase in yields could pose a greater challenge for stocks.

Final thoughts

A diversified portfolio cannot completely shelter you from market pullbacks, but it can help lower volatility and has historically been the most effective path to achieve one's financial goals.

Our approach is guided not only by our experience but also by the weight of academic research. We recognize that stocks are not immune to periods of subpar returns, but patient and disciplined investors have historically been rewarded.

We trust you have found this review to be informative. If you have any inquiries or wish to discuss any other matters, please don't hesitate to contact your financial advisor.

We hope the New Year brings you excitement, adventure and fulfillment. May the year create cherished memories and be filled with joy. Happy New Year!

Ameritas Investment Partners

[1] Source: Tax Foundation, Nov. 8, 2024 [https://taxfoundation.org/blog/trump-tariffs-impact-economy/]
[2] Source: National Archives, "*The Constitution of the United States: A transcription*" [https://www.archives.gov/founding-docs/constitution-transcript]
[3] Source: Fox News, Nov. 10, 2024, *"Florida senator calls for complete overhaul of Senate to 'get Trump's agenda done'"* [https://www.foxnews.com/video/6364510273112]
[4] Source: PIIE, Sept. 3, 2024, *"Trump II Tariffs: Who said he could do that?"* [https://www.piie.com/blogs/realtime-economics/2024/trump-ii-tariffs-who-said-he-could-do]
[5] Source: IRS, Oct. 22, 2024, *"IRS releases tax inflation adjustments for tax year 2025"* [https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025]
[6] Source: IRS, Dec. 17, 2024, *"Trust Tax Rates and Exemptions for 2024 and 2025"* [https://smartasset.com/taxes/trust-tax-rates]
[7] Source: IRS, Oct. 22, 2024, *"IRS releases tax inflation adjustments for tax year 2025"* [https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025]
[8] Source: IRS, Nov. 1, 2024, *"2025 Tax Deduction Change for Those Over Age 65"* [https://www.kiplinger.com/taxes/tax-deduction-change-for-those-over-65]
[9] Source: IRS, Oct. 22, 2024, *"IRS releases tax inflation adjustments for tax year 2025"* [https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025]
[10] Source: IRS, Publication: *"Administrative, Procedural, and Miscellaneous," page 7* [https://www.irs.gov/pub/irs-drop/rp-24-40.pdf]

The information provided should not be construed as tax or legal advice. Consult your tax advisor or attorney regarding your specific situation.

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