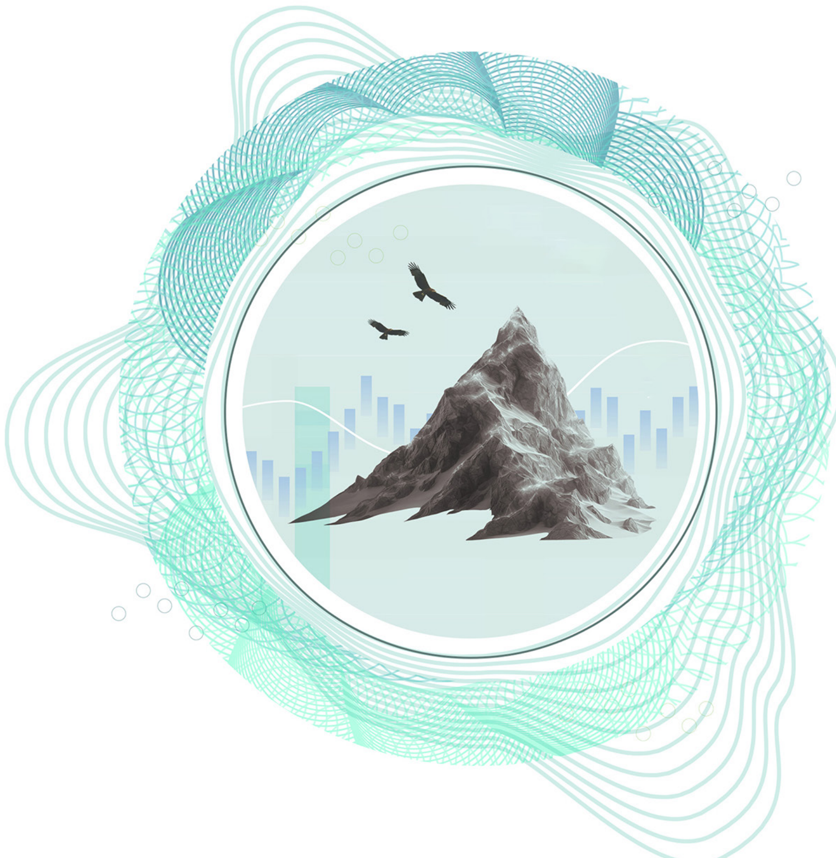

IMpact: An investment management podcast series

Episode 3: Where the ripple effect turns into major waves: How changes in tax policy can influence investment management landscape

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Reese Blair: *Hello, everyone. I'm Reese Blair, your host of IMpact, the new investment management podcast series from Deloitte. IMpact brings you hot takes and fresh perspectives from top experts in the industry. Whether we're discussing issues like regulation, recession, or resiliency, we'll take a deep dive into the latest news, trends, and challenges facing investment management professionals. Our mission is to help you focus on investing in what matters. So, tune in, learn something new, and walk away with insights that will help you make an impact on the IM industry and the world around you.*

Reese Blair: Hello, everyone. I'm Reese Blair, your host of IMpact. Today, we have a timely and critical topic to discuss: election ripples, tax policy waves in investment management. Joining me today are two esteemed panelists, Jeff Kummer and Jillien Flores. It's a pleasure to have you here.

Jillien Flores: Thank you for having me, Reese.

Jeff Kummer: Thank you, Reese. It's great to be here.

Reese Blair: Excited to have you both. Jeff, you are a managing director in Washington National Tax, and a part of our Tax Policy group. Jillien, you are head of Global Government Affairs with MFA, the trade association for the alternative asset management industry. I was wondering if you both could give our listeners a behind-the-scenes glimpse into your daily responsibilities and the key aspects of your roles.

Jillien Flores: Absolutely. I lead the advocacy MFA does with the US government and governments around the world working to ensure a public policy ecosystem that allows alternative asset managers to thrive. That advocacy of course includes tax policy, as well as various other investment management-related policies.

Jeff Kummer: I'm in our Washington National Tax office, and in our Tax Policy group, I spend a lot of my time trying to figure out directionally where Washington is headed on tax policy and communicate that out to both our Deloitte practitioners, as well as to our clients. I do spend a fair amount of time in the investment management space as part of those responsibilities.

Reese Blair: Jeff, we're going to come right to you. Given your role in Washington National Tax practice, I think maybe you can just set the stage for us. Can you maybe start by giving us an overview of how US elections have historically impacted tax policies and subsequently our investment management practice?

Jeff Kummer: Sure. We've definitely seen historically a number of different administrations where a new president in particular has come into office, or, in this case for a second term, and we've seen them start out with a quick agenda that focuses on tax. As I think about this year's election and try to put some context around it for tax policy purposes, I think I saw two dynamics at play.

First, there is this pending sunset of provisions that primarily affect individual taxpayers that are scheduled to come due at the end of 2025. And so, we saw a campaign that addressed in different ways how to address that pending cliff, if you will, related to largely individual tax policy. Also second, we had candidates on the campaign trail that talked about a number of different tax ideas.

I wouldn't say that necessarily either presidential candidate necessarily had a comprehensive set of tax policies, but they did have a number of discreet sort of tax proposals that will be considered potentially. Some of those picked up as part of a new incoming administration in January. The only final point I would make here is that yes, while US elections can drive tax policy developments, we do have to remember that a presidential campaign can talk about tax policy, a White House can propose changes to the tax code, but it's ultimately Congress is where all of the action will reside.

And so, that's what we'll be watching and paying attention to as we turn the corner into 2025. What are the governing majorities of the parties in the House and the Senate? How narrow are those? How do those impact that legislative process? What are the different moving parts? Those are some of the moving pieces. Just to remind ourselves that, at the end of the day, Congress is the ultimate arbiter on a lot of these conversations that we'll have in the tax policy space.

Reese Blair: That's a great overview, Jeff. I really appreciate that. Jillien, I want to come to you. Now that the election is over, from an investment management perspective, what are some of the key changes that our listeners should expect, particularly in relation to newly proposed tax policies?

Jillien Flores: Thank you. Yes. As Jeff said, a lot of moving parts. What do we know? We know we have unified government, with President Trump headed back to the White House and both chambers of Congress to be in Republican control. So, what does this mean for tax policy?

As said, action must be taken on the Tax Cuts and Jobs Act expiring provisions. So, there will be a tax bill, and the probability of the TCJA extension without a lot of other bells and whistles has frankly risen. Unified government means there are procedural advantages, so-called reconciliation, that will allow Congress to pass a bill more easily and with little to no bipartisan support.

So, investment management. What's on the table? Well, the short answer is we don't yet know. We don't know how streamlined the process will be, how well the Republican caucus sticks together, particularly in the House where the majority margin will be very slim, and to what extent any needed pay-fors negatively impact investment managers. Especially, Reese, as economic populism has grown, and with it challenges for educating policymakers on the significance of what our industry does.

So, I'll turn now [to] just a couple key issues to watch. At the 30,000-foot level, largely a deregulatory environment in Washington, which does present opportunities for the industry. On the corporate rate, does it change? And if so, how? Which direction? And to what extent? Infrastructure spending, tariffs, overall trade policy, and revisiting TCJA components like the SALT cap. Hopefully we don't see things like a financial transactions tax, or the taxation of unrealized capital gains, or changes to carried interest even.

Reese Blair: Jillien, really appreciate that industry lens, and thank you for weighing in there. I think we're going to start to use a lot of water analogies [laughs] since we're talking about election ripples. So, we're going to delve deeper, Jeff, into some specific tax policy areas. And I'm really focused here on individual tax policies. We want to get your sense for what does the election impact possibly have on investment behavior and strategies of individuals?

Jeff Kummer: So, Reese, thank you for that intro into the individual side of this conversation that we're having today. If we go back to the tax law, the Tax Cuts and Jobs Act, when it was originally enacted in 2017, it was clear that at the time policymakers set that law up to provide permanent tax reductions and tax relief on the business side of the ledger, but made the individual provisions more temporary so they could potentially be revisited again in the future.

So, what we have are a core set of tax increases that otherwise will occur beginning in 2026 if they are not addressed by a Congress and a White House next year. And more specific to that, we're looking at marginal rates, for example. A top marginal income tax rate would revert from 37% back up to 39.6%. There are charitable contribution rules that would otherwise become more restrictive in the future. We'll see that SALT cap, that conversation around that $10,000 limitation of the deductibility of state and local taxes. There's mortgage interest limitations, which maybe are a good thing in the sense that both the SALT cap and the mortgage interest limitations, if they were to sunset, would actually be more beneficial treatment for taxpayers.

But other changes will result in tax increases. There's a miscellaneous itemized deduction floor. The standard deduction, which is double today, would revert back to prior law. The doubled amount for gift tax exclusion amounts would revert back to the law as it existed prior to the 2017. Um, and then there's that 199 cap A deduction, which is designed to provide essentially an effective tax rate parody for business pass-through income to equal a 21% corporate statutory tax rate.

One observation I would say is that we have these things that Washington is going to look to try to extend in some form or fashion beyond the end of 2025. The other observation I would have is that, again, this presidential election, because the two candidates had two differing versions of tax policy, there was always the potential for a different outcome in this election, and that different outcome could have directly affected tax policy.

So, as Jillien noted, I think some of those ideas that maybe we saw as part of the Harris campaign that built upon tax proposals that've been put forth by the Biden White House around carried interest, around increasing the tax rates on dividends and capital gains, some form of wealth tax based on the total value of assets that an individual taxpayer has, or some form of mark-to-market mechanism on unrealized gains. These tax proposal ideas I think can maybe be set aside. Can't rule them out. They're always on a list. They can always be brought back as part of a legislative conversation. But feel like in the near term, some of that more pressure that may have impacted general partners and investors in the industry, maybe those we can set aside for the foreseeable future.

Reese Blair: Got it. Jeff, thank you. And Jillien, I want to come back to you because you teed up the notion of corporate income tax policies, right? Now that we've covered the individual impact, I want to maybe have your thoughts and perspective on what impact could these new laws or the new administration have on corporate income tax policy. Would there be potential impact on maybe behavior and strategies there?

Jillien Flores: Sure, thanks. So changes in corporate tax policy can have significant implications, of course, for the alternative asset management industry and capital markets more broadly. President-elect Trump has said in the campaign he would lower the corporate rate and, of course, a lowered corporate rate can lead to higher after-tax profits for companies of all sorts. However, such a move not offset could add to the national debt, which could have treasury market implications. I'd also note there are other measures, which could potentially satisfy the campaign promise but not include a blanket lowering of the rate, which, of course, is estimated to cost about a $100 billion in revenue loss for each percentage point.

And instead, maybe there is pursuit of lowering for domestic manufacturers, for example. Conversely, while a lower probability but not completely ruled out, if there's a conversation about a corporate rate that is increased, it will, of course, impact their returns funds generated for their beneficiaries, including pensions, foundations, and endowments. Could also increase spending on policies like the child tax credit that could end up boosting consumer spending. As you know, changes to the tax code are nuanced, and it's difficult to just put cleanly these different outcomes in categories that are good and bad. Again, we're not expecting that the corporate rate increases, but as has been mentioned, this will be a new Congress, new dynamics, and a lot of unknowns right now.

Reese Blair: Got it. Jeff, I want to continue the conversation from a corporate perspective, but maybe let's think about it from business owners, right? I'm sure listeners are curious to know how business owners should prepare for potential tax policy changes following an election like this one.

Jeff Kummer: Yes, Reese. And maybe before that, perhaps if I could build upon a little bit of what Jillien said there around the corporate rate: Also don't forget to the extension that there are conversations in Washington related to either raising or lowering the corporate tax rate. From a planning perspective, there are always going to be opportunities to work with your tax advisers around either timing shifts or method changes in order to either mitigate the impact, if it's a hike in the corporate rate, or to better plan for a future lower rate that may be coming as part of that legislative process. But from a business owner perspective, it's definitely important to pay attention and monitor the legislative process. As I think about a couple of different examples that will be worth looking at and examining and being diligent about following next year, one of them is certainly that corporate rate and the fact that there is a distinction in the taxation of business income between the corporate entities and pass-through entities. And right now there is that preferential section 199 cap A deduction that does provide that lower rate for individual taxpayers where all of those business profits flow through to the individual tax return with a 21% rate. So we have a situation where we'll be looking at that deduction to see if it is extended as part of these larger tax conversations. Presumably I think it would be extended. But are there going to be changes to that deduction? Could some of those changes to that deduction be more beneficial to players in the industry? There's going to be talk, as Julian noted, possibly around lowering the corporate rate.

If that were to happen or a special rate just for companies that manufacture products in the US—a domestic content-type corporate rate—is there going to be a corresponding attempt to make that 199 cap A deduction more generous to accommodate that parity, to ensure that business income is still taxed at roughly the same level? So choice of business organization, whether in corporate or pass-through form could definitely be a topic of discussion at the organizational level I think next year. Another thought is that we heard on the campaign trail a lot of discussion from congressional Republicans about looking back to the Inflation Reduction Act in 2022, specifically around the clean energy tax incentives from that legislation. We know that there are a number of funds, investment strategies, and investment management firms that have moved into the clean energy space, have investments there. This will be very interesting to watch.

On one hand, I heard a lot of commentary about repealing those incentives and then using that revenue to help finance extending some of these other individual tax provisions from TCJA. But I'm not convinced that we'll see a wholesale repeal as benefits do accrete in many cases to Republican districts and states. They see the investment dollars, they see the new jobs coming into their districts, and so I think those will have an opportunity to stay more in place than perhaps the political narrative has been discussing to date. Now, there might be a look at some of the items maybe more on the edges. The tech neutral credits from the IRA don't become effective until January 1st of next year. Maybe they could look to repeal those. Transferability is another area that congressional Republicans have talked about. Electric vehicles, the charging infrastructure provisions—perhaps those could get looked at.

But this is an area that I think we'll continue to watch, but I also suspect that we'll see a continuation of these incentives largely in place. And maybe a third thought is that even though we are looking at an all Republican Washington, you know, as Jillien mentioned, there is a more of an interest in deficits and keeping the cost of TCJA extension limited or down. So don't be surprised if we see some business-related items that maybe we don't like that are put on the table as part of this conversation. We could see Republicans look to things like increasing the excise tax on stock repurchases that was enacted as part of the Inflation Reduction Act.

That minimum tax on book income, CAMT, that might be a topic for discussion. Corporate SALT deduction. Changes to executive comp rules to ensure that more employees are subject to that million-dollar corporate deductibility cap that's in the law today. And then there's an increase possibly on the excise tax around college endowments and which sounds like a tax-exempt change affecting universities, except that, as we know, an increase could impact the companies, the funds, the individual investors in those endowments. So there's a trail-on effect that could ultimately happen there. So couple of thoughts to think about early on in this tax policy conversation as we begin to turn the corner into 2025.

Jillien Flores: And Reese, if I could maybe just underscore some really important points Jeff made. I agree completely on the conversation around clean energy and IRA—that it is not as straightforward as some assume that there will be a full rolling back of that piece of legislation. It's a very parochial issue, and you're absolutely right. The investment management industry, uh, many participants have been focused very closely on outcomes there because it impacts their investment strategies. I think you also make a really astute observation on the dynamics around paying for things and the fact that business interests are not necessarily as safe as maybe we would've assumed historically to be the case in an all-Republican Washington. So there will certainly be plenty of opportunities as well as probably some threats out there for the industry to fight.

Reese Blair: Jeff, Jillien, thank you both for weighing in. So many topics covered there. I almost wish we could carve out even more time than we're investing today, but let's, given that this is the Investment Management Impact podcast, right? The fact that we are talking to a community of folks who are connected to the investment management industry, one of the things I'm curious about, again, zooming out from everything we just talked about and maybe double-clicking on something specific to this industry. I'm curious because I'm seeing a trend in the space of democratized investments. And so I'm just wondering if I could get maybe both of your perspectives if both of you could maybe weigh in or either one of you could weigh in on what do you think, or how do you see, the election outcomes and potential tax policy changes influencing this trend that we're seeing towards democratized investments?

Jillien Flores: Sure. Maybe I can take an initial stab at that, Reese. You're touching on a really important policy topic that I think will be explored pretty extensively over the next few years. The so-called retailization of investment and alternatives has been on the rise for a number of years now, but a Republican administration will likely seek to further democratize access by exploring expansion of the accredited investor definition and by a potentially adding greater clarity to the extent which defined contribution plans can hold alternatives in, say, a 401(k) target-date fund. So the expansion to the retail market—and what I mean there primarily is the so-called mass affluent or low-high net worth—is well underway. If Washington policy opens the floodgates, there are potential downside risks in the way the industry is regulated longer term.

Reese Blair: Jillien, I'll come back to you because again, on that notion of talk about democratized investments, staying in the industry. Obviously where you sit with MFA, curious to get your perspective. Again, given the recent election results and the theme that we're talking about today, what ripple effects can we expect specifically on alternative investment strategies, right? So maybe zoom out a little bit and just maybe hum a few bars on alternative investment strategies. What do you think the anticipated tax policy changes will look like in that space?

Jillien Flores: Well, Reese, first I'm loving all of the water references that you're fitting in here—our ripple effects. Let's look at a reduction in rates or even specifically accelerated allowances for deducting capital expenditures, interest, and research costs. These measures have the potential of creating a so-called virtuous cycle, shifting more resources back into personnel, upskilling equipment, and R&D, an overall increase in capital to US businesses. On the other hand, if something like carried interest is negatively addressed in the tax bill, such changes would put pressure on high-churn, high-turnover strategies and less pressure on longer-term strategies. In other words, such a change would influence which strategies managers deploy for reasons outside of the underlying economics of the investments. It's not what we're expecting, but I'd say we'll remain vigilant.

Reese Blair: Thank you, Jillien. I appreciate that. Jeff, I'm curious. Jillien obviously brings a perspective, given her role at MFA, but I'm curious to get your take on how the shifting tax policies that we're seeing potentially impact, no pun intended to the name of this podcast, but how do you think it may shake up or impact the landscape for registered funds, like mutual funds, ETFs, etc.? What exciting opportunities or challenges could investors face?

Jeff Kummer: Yeah. I think on one side, an opportunity simply is that I think you'll see a Republican-led Washington focus on trying to both extend those individual tax policies as well as focus on some business-related items to provide additional relief, which, of course, could free up more capital and provide more opportunities for investments in those funds. I think Jillien touched on four key ones that will be very important to pay attention to, and one is that corporate rate, which again, depending on how the legislation ultimately comes together next year, perhaps could involve an increase in the rate. I feel like we can't necessarily rule that out. But we do also have a President-Elect Trump, who was talking about potentially lowering the rate.

Then the other three components that Jillien just mentioned we still have some uncertainty around research cost, the tax treatment of those, the fact that you have to cap and amortize those over five years if it's in the US, 15 if it's foreign R&D. And the attempt to try to bring that back to immediate expensing, which, of course, for cash flow purposes would be much better. The fact that depreciation and amortization have been removed from those EBIT calculations, and so it has further tightened those interest deductibility rules, making it more difficult to work within the framework of interest deductibility.

And then bonus depreciation, which was 100% a couple of years ago, is 60% this year, schedules down to zero beginning in 2027. The last time US tax code did not have either 50% or 80% or 100% expensing was 2008, so it's become part and parcel with our tax code. And so those three items, and the fact that they were left off of, at least to date, legislative efforts this year and essentially haves pushed into next year's larger tax conversation. Being diligent, keeping track of those—those are key ones, I think, for the business community because they will, to the extent they impact businesses, it does layer into the members in those funds and ETFs.

Reese Blair: Thank you, Jeff. I appreciate that perspective from the registered space. Jillien, let's switch swim lanes and come back to talking about hedge funds. We know there's tons of sensitivity to tax policy changes that impact hedge funds, so maybe how would hedge funds be impacted with all of these changes that we're expecting to see?

Jillien Flores: Great question. I might just rewind before getting into the hedge-fund-specific dynamics, back to my points around retailization, because I think they also tie into what Jeff just shared on the implications for mutual funds and other registered investment company vehicles. There is a convergence and a lot of hybrid strategies being used in the alternatives space right now, and I think we could expect to see more mutual-fund-like and ETF-like wrappers with alternative-like products inside of them for a lot of reasons, to expand investor base, but also because of some of the tax efficiencies. So there is a nexus there.

But diving in specific to hedge funds or to private funds more broadly, there is a relationship here to fund performance. Hedge funds are particularly sensitive to tax policy changes due to the complex investment strategies and structures. So returns can be enhanced by reducing tax liabilities on profits. All the more reason market participants need to stay informed about potential tax changes and implications for fund performance. And we need to ensure our industry is not viewed as an easy solution if policymakers do seek pay-fors to offset the extension of TCJA or other costs.

Reese Blair: Thank you for that, Jillien. Let's move beyond our shores and follow these ripple effects to the oceans around the world. What are the potential implications of this election outcome on international investments and global tax policy?

Jillien Flores: Sure. I'll start by saying that the conversation around these important topics tends to ebb and flow. I couldn't resist fitting in my own water reference.

Reese Blair: Well done.

Jillien Flores: [Laughs] We at MFA, we're a global organization, as you know, so we have offices in the US as well as in London and Brussels, and we do follow these dynamics very closely. So, trade agreements, tariffs, and international tax regulations are all expected to be, in some way, revisited in the upcoming administration, which could impact supply chains, multinational corporations, and global tax reforms. The changes could also have an impact on economic indicators and related monetary policy decision-making here in the US. I think it'll be worth watching dynamics with the OECD efforts to coordinate the global minimum tax and any potential repercussions on cooperating multinational companies.

Jeff Kummer: And if I could build on that last note that Jillien made around Pillar Two. From a tax perspective, as we know, there is this overarching OECD 15% minimum tax regime under Pillar Two that has been put into place. Many countries are beginning to implement and will begin to assess and collect tax under that regime, and yet the United States is not part of that global agreement just yet, because there is a tension there between congressional Republicans, and I would expect a Republican White House to continue those tensions. And so as we watch this play out, it will be interesting to see how other countries begin to react to the US. There are some real programmatic concerns with the minimum tax regime that members on Capitol Hill are not happy with.

There is the tax treatment of business tax credits, like the research credit, which often is the largest tax credit that many portfolio companies would have on their accounts. For purposes of this Pillar Two, there are different component parts, but the one that we focus on the most is this undertaxed profits rule. And business tax credits from the US companies currently are counted as a tax expense, which essentially pushes your effective tax rate on that earned income, in another jurisdiction, lower, below 15%, which then allows that jurisdiction to, quote, "top up" that tax to 15% and collect the difference. There's a lot of opposition amongst congressional Republicans around that. There's talk about using the tax code to potentially retaliate against other jurisdictions to the extent that they are imposing that UTPR increasing base erosion and anti-abuse tax on inbound companies coming into the US. especially if those companies are headquartered or domiciled in those other jurisdictions.

There is always the possibility, Jillien mentioned other international trade tools, like tariffs. A White House could look to use tariffs to push back against other countries to the extent that they are collecting tax from US multinationals. Or we might see other countries look at the current makeup politically in Washington and recognize that we have elections every four years, every two years, in the House and a third in the Senate. They might say, "Maybe we'll just hit the pause button, and not collect these additional taxes, and just see what, perhaps, the political climate looks like in a few years, and then maybe think about re-upping that, or retriggering that, tax at that point."

But this is a very open and uncertain area, where you have a global tax agreement where many, many countries around the world are part of, and yet the US is not. So that will be something interesting to watch.

Reese Blair: Thank you for layering that in Jeff. That's very helpful, and certainly I appreciate that context. And you mentioned something, obviously that is a fact as it relates to all of this uncertainty and openness, right? And we all know that the only thing that remains constant is change, right? And so in that vein, how can investors and advisers stay informed about additional potential tax policy changes and their implications?

Jeff Kummer: So certainly, working with your tax advisers, I think, is a key thing here. Keeping diligent, following these developments in the press, but also, just generally, just keeping an eye on things and recognizing that we're going to go through a process where we'll begin perhaps early next year. A lot of ideas could be put on the table.

One of the observations that I've had as I think about this process next year is that, yes, the focus is on those provisions that will sunset under the Tax Cuts and Jobs Act. But I think we can expect a much larger conversation with lots of other tax ideas added to the discussion. Some of those tax ideas might be things that we like. Some of those tax ideas might be things the industry doesn't like. And so just watching and tracking and being diligent in your management of what's going on, I think, will be a key component of the process.

Reese Blair: Thank you for weighing in there, Jeff. We are coming to the tail end of this conversation today, and listen, I tried as best I can to not boil the ocean here [laughs] because there's so many things to cover in a relatively short period of time, and hopefully, this whet everyone's appetite. I can do this all day! [laughs] We're getting ready to wrap up, and the thing that I've always approached this podcast with is the notion that we try to deliver ideas and insights that you might've heard before, i.e., déjà vu, "I've seen or heard that before," but you turn that on its head and you have this sort of vujà dé moment, right? Where "I've heard that before, but I haven't quite heard it like that." And so, again, while we're not going to boil the ocean here, or we're not going to try to tackle too many things all at once. I do want to try to maybe just close with some final thoughts on the potential impact of these recent elections and what they will have, the impact they will have on the investment management industry and the listeners. Something that we haven't talked about, something that you just want to leave with our listeners before we wrap up here today.

Jillien Flores: Sure. I can start. We are just swimming in interesting points on this podcast. It's been really fun to go through all of these important topics. So, some things that may be less obvious, the assumptions we have made about the parties for decades are changing. The playbooks that have been used in the past need to be thrown out and re-envisioned. Populism's on the rise in the GOP. It's not safe to assume that Republicans or any policymaker will pursue business-friendly policies. The realignment means that making predictions about policies either party will pursue is a fraught endeavor. And this is why it's more important than ever to educate policymakers across Capitol Hill and beyond on the critical role investment management plays in the economy.

But the populism also amplifies the very tight margins of the majority party in Congress, which we mentioned earlier, particularly in the House. Each member essentially has the ability to throw larger bargains off course, which could result in a bucking of the conventional wisdom that assumes Republicans relative to divided government will be able to more easily and quickly agree upon a broad tax package. It could take longer. It won't include all of the campaign promises. It could include Democrats as key stakeholders at the table. And the actual political pressure points in time are January 2026 and April of 2026 when the first paychecks go out and the first estimated quarterly payments are due.

Jeff Kummer: I agree with everything that Jillien said. And I would suspect that we will see a tidal wave of tax activity early next year. I think my sort of closing thought, Reese, is it really is around timing. And Jillien just touched on that a little bit, as well as earlier. Talking about the use of budget reconciliation. There is a lot of discussion right now amongst congressional Republicans that they will move quickly on tax policy developments next year. The 100-day agenda. And they're preparing for that eventuality. And using that budget reconciliation process, which, as Jillien mentioned, benefits Republicans next year because they'll control the House, Senate, and White House.

They can pass legislation on a simple majority vote in the Senate. However, there are limits that govern its use. And so, when we think about moving on taxes early next year, there are some mechanical things like the fact that House and Senate budget committees will have to put together a budget resolution that includes what we call the top line number. So, you think about the Tax Cuts and Jobs Act as an example, in 2017—there's a lot of discussion in the press that it was a $1.5 trillion tax cut. In fact, it was, but that's the net number. There were $4 trillion worth of tax increases, $5.5 trillion worth of tax cuts, for a $1.5 trillion net tax cut. It took Republicans members of the House and Senate a long time in 2017 to finally arrive on that top-line number.

That allows them, the tax writing committees, to back that up and backfill and put together the legislation to meet that number. So, as I hear conversations about tax policy developments moving early next year, I think we can be mindful that it could easily take longer than that first 100 days. Timing could easily slip into Q3 or Q4 as policymakers work through a tax policy process that will not only look at extending TCJA; it'll also look at extending other items. President-elect Trump had a number of discrete tax proposals that he talked about on the campaign trail. Some of those he will likely want to include in this process as well. And then it gets back to the whole point of cost.

If extending current law is about a $4.5 trillion number, how do you assume—when you have members who are focused on deficits and debt financing, long-term deficit impacts—how do you think about financing that? Is it as simple as finding a lot of tax increases? That doesn't feel like there's $4.5 trillion worth of tax increases there. Is some of this, uh, further deficit financing, and what is that number? Where could members get comfortable with adding some additional cost of that extension to the deficit? Do we see an extension of TCJA, but only for a few years? Budget reconciliation works off of a 10-year budget window. But as we know, in order to make those numbers work, sometimes you see sunsets of provisions, so they assume that there will be an increase collection of tax in those latter years.

Could there be spending cuts as part of this conversation? Do tariffs play a role? Will there be an attempt to utilize, quote, "dynamic scoring," as part of this? To assume that by creating a more beneficial and advantageous tax landscape, that will ultimately result in more economic growth, which then results in further tax collections coming into Treasury? If we get to the end of next year and we're not quite finished yet, do we see an extension of TCJA for a short period of time to give policymakers, Republicans in the House and Senate, more time to bring this total deal together? Or do we see even a temporary sunset with the promise that we end up with changes that are retroactive back to January 1 of 2026?

Although, Jillien makes an excellent point. For W2 workers, you're going to see an increase in that biweekly pay period in January. For companies, it's going to hit you on that first-quarter estimated tax payment. So, a lot of moving pieces, a lot of different items I think will be brought into the discussion. But timing will be a thing to watch. I expect a lot of activity next year early, but perhaps be prepared for this to be a more drawn-out tax policy conversation on Capitol Hill

Reese Blair: Wow, wow, wow. [laughs] Today's conversation was so many things. We said it was timely. We said it was critical. But from my perspective, technically rich and thought-provoking. You both dropped so many gems today, and I just can't thank you, Jillien, thank you, Jeff, for your valuable, invaluable insights today, quite frankly. I certainly have learned a lot. I'm probably going to have to go back and listen to this one a couple more [laughs] times because this was definitely a really technically rich, technically dense conversation today. And so, I certainly hope our listeners learned a lot today too. Your perspectives, your expertise, was on full display today.

And it certainly enriched my perspective and perceptions, and hopefully it did the same for our listeners as well. To all of our listeners, thank you for joining us in the conversation today and investing time with us. As I've stated before, I'll state again, knowledge is not power. It's the use of that knowledge where you get your power. And so, let's continue to learn, let's continue to apply insights that we gain from these conversations. Let's focus on investing in what matters. And so, until next time, keep engaging, keep innovating, and, of course, keep making an impact.

Reese Blair: *Thanks for joining us for today's episode. Be sure to listen to IMpact each month. You can find us on deloitte.com, Apple Podcasts, Stitcher, Spotify, or wherever you get your favorite podcast. Simply search I-M-P-A-C-T. For more insights on investment management, visit the investment management page at deloitte.com. You can also connect with me on social media. Just search Reese Blair on LinkedIn. Until we meet again, keep making an impact.*